Annual Report 2011

HKSE CODE: 3983

中海石油化學股份有限公司
China BlueChemical Ltd.

COMPANY PROFILE

China BlueChemical Ltd. ("China BlueChem", stock code: 03983) is a large-scale and modernized enterprise engaging in the development, production and sales of mineral fertilisers and chemical products. Headquartered in Beijing, China BlueChem's production facilities are located in Hainan Province, the Inner Mongolia Autonomous Region and Hubei Province. Its total designed annual production capacity amounts to 1,840,000 tonnes of urea, 500,000 tonnes of phosphate fertilisers, 1,600,000 tonnes of methanol and 60,000 tonnes of POM. On 29 September 2006, China BlueChem was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

China BlueChem is one of the largest listed companies in terms of production volume of fertilisers and methanol in China. As a subsidiary of China National Offshore Oil Corporation ("CNOOC"), the competitive advantages owned by China BlueChem laid a solid foundation for its robust development of mineral fertilisers and chemical businesses.

2011

中海石油化学股份有限公司
China BlueChemical Ltd.

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Financial Highlights

Selected Consolidated Income Statement Data

For the year ended 31 December, RMB'million

	2007	2008 (As previously reported)	2008 (Restated) (Note)	2009	2010	**2011**
Revenue	4,340.4	5,518.2	6,811.8	5,794.6	6,867.3	**9,756.3**
Cost of sales	(2,552.1)	(3250.0)	(4,505.4)	(4,075.3)	(4,678.5)	**(6,488.7)**
Gross profit	1,788.3	2,268.2	2,306.4	1,719.3	2,188.7	**3,267.6**
Other income and gains	74.0	127.8	138.3	69.3	67.3	**127.9**
Selling and distribution costs	(70.2)	(82.5)	(101.5)	(132.8)	(147.8)	**(169.4)**
Administrative expenses	(223.8)	(280.8)	(380.3)	(349.4)	(382.6)	**(418.3)**
Other expenses	(51.2)	(28.7)	(32.5)	(23.6)	(34.8)	**(32.1)**
Finance income	29.3	25.5	26.5	32.4	11.3	**16.0**
Finance costs	(18.3)	(12.1)	(22.9)	(14.5)	(11.9)	**(18.0)**
Exchange gains/ (losses), net	14.4	14.9	14.7	(3.1)	(4.2)	**2.3**
Share of profits/ (losses) of associates	4.0	4.7	4.7	14.8	(0.4)	**0.1**
Profit before tax	1,546.5	2,037.0	1,953.4	1,312.4	1,685.7	**2,776.1**
Income tax expense	(67.1)	(176.1)	(131.8)	(197.7)	(316.0)	**(556.4)**
Profit for the year	1,479.4	1,860.9	1,821.6	1,114.7	1,369.7	**2,219.7**
Profit attributable to equity holders of the parent	1,448.3	1,635.3	1,608.5	984.7	1,175.3	**1,985.8**
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	0.31	0.35	0.35	0.21	0.25	**0.43**

Selected Consolidated Statement of Financial Position Data

As at 31 December, RMB'million

	2007	2008 (As previously reported)	2008 (Restated) (Note)	2009	2010	**2011**
Assets						
Non-current assets	5,986.0	6,668.8	7,696.9	9,042.3	10,650.8	**11,198.0**
Current assets	3,711.5	5,030.8	5,494.2	3,604.1	3,875.8	**5,270.7**
Total assets	9,697.5	11,699.6	13,191.1	12,646.4	14,526.7	**16,468.7**
Equity and liabilities						
Total equity	8,482.5	10,326.8	11,333.1	10,944.2	11,922.0	**13,567.7**
Non-current liabilities	352.4	410.0	473.4	249.8	580.1	**680.0**
Current liabilities	862.6	962.7	1,384.6	1,452.4	2,024.6	**2,221.1**
Total equity and liabilities	9,697.5	11,699.6	13,191.1	12,646.4	14,526.7	**16,468.7**

Note: On 28 February 2009, the Company acquired 83.17% and 100% equity interest of Hubei Dayukou Chemical Co., Ltd. ("DYK Chemical") and ZHJ Mining Company Limited ("ZHJ Mining") respectively with an aggregate cash consideration of RMB1,161,018,000. As the three parities are all ultimately controlled by CNOOC before and after the acquisition, the Company chose to refer to the principles set out in Accounting Guideline when preparing the consolidated fi nancial statements as if the acquisition had occurred from the date when the combining entities first came under the control of CNOOC, and the consideration was regarded as the deemed distribution to CNOOC, thus restated the 2008 consolidated financial statements.

Operational Highlights

Production volume and utilisation rate of the Group's various plants

		Year Ended 31 December					
		Production volume *(tonnes)*			Utilisation Rate *(%)*		
		2011	2010	Change *(%)*	**2011**	2010	Change
Fertilisers							
Urea	Fudao Phase I	**552,689**	570,135	(3.1)	**106.3**	109.6	(3.3)
	Fudao Phase II	**904,914**	875,070	3.4	**113.1**	109.4	3.7
	CNOOC Tianye	**450,094**	565,131	(20.4)	**86.6**	108.7	(22.1)
	Group total	**1,907,697**	2,010,336	(5.1)	**103.7**	109.3	(5.6)
Phosphate Fertilisers	DYK Chemical MAP	**39,950**	53,854	(25.8)	**26.6**	35.9	(9.3)
	DYK Chemical DAP	**395,352**	401,353	(1.5)	**113.0**	114.7	(1.7)
	Group total	**435,302**	455,207	(4.4)	**87.1**	91.0	(3.9)
Chemical Products							
Methanol	Hainan Phase I	**652,226**	633,703	2.9	**108.7**	105.6	3.1
	Hainan Phase II (note1)	**776,325**	74,762	938.4	**97.0**	112.1	(15.1)
	CNOOC Tianye	**141,790**	158,616	(10.6)	**70.9**	79.3	(8.4)
	Group total	**1,570,341**	867,081	81.1	**98.1**	100.0	(1.9)
POM	CNOOC Tianye POM (note 2)	**10,104**	_	_	**67.4**	_	_
	Group total	**10,104**	_	_	**67.4**	_	_

Note: 1. The Hainan Phase II Methanol Plant went into commercial operation on 1 December 2010. Its production volume in 2010 was included from the date of commercial operation only.
2. The CNOOC Tianye POM Plant went into commercial operation on 1 October 2011. Its production volume in 2011 was included from the date of commercial operation only.

Sales volume of the Group's various plants

Unit: tonne

		For the year ended 31 December 2011	For the year ended 31 December 2010	Change *(%)*
Fertilisers				
Urea	Fudao Phase I	**528,363**	563,100	(6.2)
	Fudao Phase II	**865,747**	867,490	(0.2)
	CNOOC Tianye	**473,310**	553,454	(14.5)
	Group total	**1,867,420**	1,984,044	(5.9)
Phosphate Fertilisers	DYK Chemical MAP	**35,687**	58,513	(39.0)
	DYK Chemical DAP	**394,346**	421,043	(6.3)
	Group total	**430,033**	479,556	(10.3)
Chemical Products				
Methanol	Hainan Phase I	**655,951**	647,343	1.3
	Hainan Phase II	**738,829**	64,457	1046.2
	CNOOC Tianye	**98,156**	155,059	(36.7)
	Group total	**1,492,936**	866,859	72.2
POM	CNOOC Tianye POM	**6,491**	_	_
	Group total	**6,491**	_	_

Chairman's Statement

Dear Shareholders,

It is my honour to be elected Chairman of the Company in July 2011 with your trust and support. During my term of office, I will work closely with all the directors of the Company to the best of my ability and contribute towards the sustainable development of the Company.

On behalf of the Board, I would like to announce that the Company achieved excellent operating results in 2011 with both revenue and profit reaching the highest level in our history.

Despite turmoil in the international capital markets and significant downshifts of the Hong Kong Hang Seng Index in 2011, we have been able to gain confidence and trust from investors and shareholders of the Company through our sound corporate governance, outstanding management team and excellent operating results. Company's share prices in 2011 remained stable throughout the year by significantly outperforming the market with a rise of about 6%. To repay shareholders' supports, we have also steadily raised our dividend payout ratio in line with our rapid development.

In order to build a solid foundation for the healthy and sustainable development of the Company, the Board has been striving to improve our standard of corporate governance. In 2011, we have revised and improved the regulations for the operations of the Board and further standardised the corporate governance structure of our subsidiaries and associates. During the year, having taken into account the Company's requirements for day-to-day operations and development as well as the safeguards for the interests of minority shareholders, the independent board committee has genuinely considered and approved the connected transaction agreements and their respective caps for the next three years, which were finally approved by the independent shareholders at the extraordinary general meeting.

Looking ahead, further increases in global demands for foodstuffs as well as the PRC government's persistence in its strategic planning of increasing foodstuff production may lead to steady increases in international and domestic demands for fertilisers. In China, market demands for methanol will be further driven up by stable economic growth, development of alternative energy and the expansion of the methanol-to-olefin industry.

In 2012, adhering to our development strategy of "securing natural resource and strengthening cost competitiveness", the Company will continue to strengthen our cost and economics of scale advantages in fertilisers and methanol to create sound returns in value to shareholders.

Finally, I appreciate the vibrant support and full trust given by shareholders for the Company's development and the efforts contributed by our directors, management and staff whole-heartedly. We will march forward to accomplish our vision to be the leader of the domestic fertiliser sector.

LI Hui
Chairman

CEO's Report

Dear Shareholders:

In 2011, under the leadership of our board of directors (the "Board"), your company managed to overcome the effects of increases in costs and the serious shortage of natural gas supply during winter season in Inner Mongolia through leveraging on our competitive advantages in management, cost and brand and capitalising on the sound opportunities available in the domestic fertiliser and methanol markets. As a result, your company achieved the best performance in 2011 since its establishment.

Highest operating results in our history

In 2011, the company delivered revenue of RMB9,756 million, a significant increase of 42% over last year, and our net profit attributable to owners of the parent surged by 69% year-on-year to RMB1,986 million.

Our Hainan Phase II Methanol Plant, which went into commercial operation in December 2010, achieved revenue of RMB1,675 million and net profit of RMB535 million, respectively, in 2011. The Company successfully sustained sound profitability while achieving organic expansion.

Stable operation of our major production facilities with efficiency and effectiveness in cost control

During the reporting period, the fine-tuning of our production management has resulted in the safe and stable operation of our main plants. Our Hainan Fudao Phase II Urea Plant ran for 359 consecutive days during the reporting period and set its hsitorical records in both utilisation days and production volume. Our Hainan Phase I Methanol Plant also set its best record for production volume since its commercial operation.

In view of the shortage in natural gas supply in winter and its major overhaul, the utilisation rates of the urea and methanol production plants of CNOOC Tianye in Inner Mongolia declined notably over last year.

Backed up by our adequate resources supply, stable natural gas pricing adjustment mechanism, safe and stable operation of production plants and logistics advantages, the results of our cost control was notable, in spite of significant increases in prices of production raw materials and energy for domestic fertiliser and methanol industries in 2011. We continue to lead our industry in terms of profitablity with a gross profit margin exceeding 33% in 2011.

Progress of major projects on schedule

Our Inner Mongolia POM Plant with a 60,000 annual capacity went into commercial operation in October 2011 as its operation gradually became stable during the trial period with a rising utilisation rate.

The construction of our DYK Chemical's ammonium phosphate production expansion project in Hubei has completed on schedule. We expect it to be put into trial production in April 2012.

The foundation design, engineering construction and equipment procurement of our coal-based urea project in Hegang, Heilongjiang are on schedule with the production command centre in its plant area basically completed.

Sound operation of internal control management system

Based on the principles of "full-staff participation, thorough-control procedures and all-directional monitoring", we achieved the overall consistency among the management systems of our headquarters and various subsidiaries by undertaking thorough streamlining and discrepancy analysis of their respective management systems in 2011.

As recommended by the functional internal audits undertaken in respect of our sales and project management, our Company has further enhanced the duties of all sales positions, the appraisal and incentive mechanism of sales as well as the progress and expense control of projects.

Outstanding results in HSE management

In 2011, the environmental protection facilities of our various production bases were operating soundly and our neutralised water recycling plant was operating smoothly. The biochemical treatment of waste water had better efficiency and complied with the state emission standards, with no environmental hazard occurred. Effect of our energy-saving efficiency was obvious, equivalent to approximately 23,000 tonnes of coal per annum being saved, calculated according to national statistic caliber. With an annual OSHA record of 0.0237, our main plants were operating safely and stable with no major accident or incident of responsibility or occupational hazards occurred during the year.

Active performance of corporate social responsibility

We have been actively performing our corporate social responsibility by removing intermediaries to realize direct sales to farmers in order to reduce their purchase costs of fertilisers. In addition, through promoting soil-testing and fertiliser prescription continuously in optimising the application efficiency of fertilisers, our contribution has driven the increases in production by and revenue of farmers.

Controlled-release fertilisers may significantly enhance the application rate of fertilisers as well as reduce their impact on the environment during the course of its application. During the reporting period, we have been actively developing controlled-release fertiliser and have constructed an industrial testing plant with an annual capacity of 5,000 tonnes and produced state standard compliant products successfully.

At times of our burgeoning development, we have also actively developed our relief activities in education to schools in the vicinity of our production bases in order to assist some of the poor and under-privileged students to complete their courses of studies.

Outlook for 2012

We will endeavour to achieve safe, stable and highly efficient operations of our main plants and complete our operating targets for 2012, as well as focus on the following tasks: to optimise production technology, enhance plant utilisation rate and strive to improve product functionalities and upgrade product quality of the POM plant; to expand and develop our sales and trading network in order to smoothen sales of POM products and the phosphate fertiliser products soon to be produced; strengthen project management and actively push forward the projects in progress and under preparation; and continue to identify domestic and international merger and acquisition opportunities that match our development strategy.

In 2012, the management and employees of the Company and I will adhere to the development strategy set by the Board and continue to enhance the value of the Company.

YANG Yexin

CEO & President

Management Discussion and Analysis

Sector Review and Outlook

Fertiliser Industry

To resolve the issue of provision of grain and key agricultural produces domestically has always been headlined by the PRC government as the paramount task of its sovereign governance. In 2011, the PRC government continued to strengthen its support to grain production with actual investments in agriculture, rural areas and farmers of more than RMB1 trillion for the first time. The policy support of and commitments to agriculture led to the domestic grain production of 571 million tonnes in 2011, a consecutive growth for the eighth year.

According to the statistics of the Food and Agriculture Organisation of the United Nations, the worldwide major foodstuff price index rose steadily and reached a new high in 2011.Strong international foodstuff prices fuelled the global passion of planting agricultural produces.

As a result of international and domestic development in agriculture and increased foodstuff production in 2011, global demands for fertilisers flourished with significant year-on-year increases in fertiliser prices.

In 2011, low-season export tariffs of domestic urea and phosphate fertilisers remained at 7% as their respective low-season export windows shortened by one and one and a half month than 2010, respectively. The benchmark prices of low-season export tariffs of urea and phosphate fertilisers were accordingly adjusted downward.

(1) Urea

During the reporting period, domestic coal prices hovered aloft which caused significant increases in production costs of small-to-medium domestic urea manufacturers using anthracite as major feedstock.

In 2011, domestic urea production was approximately 58.6 million tonnes (in kind), a minor increase of 1.6% over the 57.7 million tonnes (in kind) in 2010.

During January to April 2011, domestic urea market was stable with average price ranged from RMB2,000 to RMB2,100 per tonne. Given the strong domestic demand for urea, significant surges in international market prices of urea and beefing up of reserves for export by domestic manufacturers, domestic market prices of urea sustained its surge since May, reached and stood at its highest level of the year in August. Urea prices eased slightly from mid-October onwards until the end of December when, backed up by production costs and domestic low-season fertiliser reserve, domestic urea market prices rebounded to around RMB2,200 per tonne.

In 2011, domestic export volume of urea fell significantly from 2010 by approximately 49% to 3.56 million tonnes (in kind), primarily attributed to high domestic urea prices during low season and changes in urea export tariff policy.

(2) Phosphate Fertilisers

In order to standardise the development of the phosphate fertiliser industry, the PRC government promulgated the policy of "the Entry Criteria for Ammonium Phosphate Industry", which raised the access thresholds for the ammonium phosphate industry to benefit the healthy development of the domestic phosphate fertiliser industry.

In 2011, domestic ammonium phosphate production exceeded 23 million tonnes (in kind), a year-on-year increase of approximately 15%, whereas domestic exports was basically level against last year, at approximately 4.88 million tonnes (in kind).

During the first three quarters of 2011, domestic prices of ammonium phosphate rose steadily which was primarily attributed to robust domestic demand and increases in raw material (sulphur, ammonia and phosphoric ore) prices for the production of ammonium phosphate. However, ammonium phosphate prices fell slightly from November 2011 onwards.

Looking forward to the year of 2012, domestic demands for urea and phosphate fertilizers will increase as the PRC government escalates its commitments to grain production progressively on the back of raising the minimum purchase prices of grain in order to underpin the continual increases in domestic grain production in 2012.

Chemical Industry

(1) Methanol Sector

In 2011, demand for methanol from domestic downstream methanol industries continued to increase amid steady economic growth in the PRC and as crude oil prices hovered high, the application of methanol as an alternative source of energy grew swiftly.

In 2011, domestic apparent consumption of methanol exceeded 25 million tonnes, an increase of approximately 25% over 2010. Domestic methanol production was approximately 19.8 million tonnes, an increase of approximately 27% over 2010, whereas domestic imports was approximately 5.7 million tonnes, a minor year-on-year increase of approximately 9.8%.

In order to standardise the orderly development of the coal chemical industry, the PRC government raised the entry level of new coal-based methanol projects to benefit the long-term healthy development of the methanol sector.

In 2011, costs of domestic coal-based methanol manufacturers increased as domestic coal prices remained high and electricity price went up. The utilisation rates of some of the natural gas-based domestic methanol manufacturers were restricted due to inadequate supply of natural gas for production.

Domestic methanol market prices fluctuated at a narrow range in 2011 due to speedy growths in domestic production capacity and demand of methanol in recent years. However, the mid-price of fluctuations range of methanol market prices rose to RMB2,800 per tonne owing to increases in production costs and robust demand.

(2) POM Sector

POM, which is an excellent engineering polymer with good physical and processing properties, is widely used in the automotive industry, electronics industry and the daily commodity processing industry.

In 2011, domestic production capacity of POM surged by 59% over 2010 to 430,000 tonnes with production reached 230,000 tonnes, a massive year-on-year increase of approximately 60%. Domestic imports and exports remained stable at approximately 210,000 tonnes and approximately 66,000 tonnes respectively. Annual apparent consumption was approximately 375,000 tonnes with actual demand of approximately 320,000 tonnes and inventory of POM products as at the end of 2011 of approximately 50,000 tonnes.

During the first three quarters of 2011, market prices of POM were stable as domestic demand grew steadily. At the fourth quarter, domestic demand for POM softened given the Euro and US debt crises and slowdown in domestic economic growth. Coupled with increases in supply, domestic market prices of POM fell significantly to below RMB10,000 per tonne at the end of the year, with inversion between the sales prices of middle-to-low end POM products and the costs.

Looking forward to the year of 2012, despite the uncertainty over recovery of the global economy, the PRC economy will still grow steadily. Domestic downstream demands for methanol will still increase steadily whereas ferocious price competition will prevail over middle-to-low end POM products due to serious imbalance of supply over demand.

Business Review

Production Management

During the Reporting Period, the Group ensured its major production plants in safe and stable operational condition through strengthening production and safety management. The Fudao Phase II Urea Plant and the Hainan Phase I Methanol Plant set historical production records.

Production information of the Group's various plants in 2011 are set out below:

	Year Ended 31 December			
	2011		2010	
	Production volume *(tonnes)*	Utilisation Rate *(%)*	Production volume *(tonnes)*	Utilisation Rate *(%)*
Fertilisers				
Urea				
Fudao Phase I	**552,689**	**106.3**	570,135	109.6
Fudao Phase II	**904,914**	**113.1**	875,070	109.4
CNOOC Tianye	**450,094**	**86.6**	565,131	108.7
Group total	**1,907,697**	**103.7**	2,010,336	109.3
Phosphate Fertilisers				
DYK Chemical MAP	**39,950**	**26.6**	53,854	35.9
DYK Chemical DAP	**395,352**	**113.0**	401,353	114.7
Group total	**435,302**	**87.1**	455,207	91.0
Chemical Products				
Methanol				
Hainan Phase I	**652,226**	**108.7**	633,703	105.6
Hainan Phase II (note1)	**776,325**	**97.0**	74,762	112.1
CNOOC Tianye	**141,790**	**70.9**	158,616	79.3
Group total	**1,570,341**	**98.1**	867,081	100.0
POM				
CNOOC Tianye POM (note 2)	**10,104**	**67.4**	–	–
Group total	**10,104**	**67.4**	–	–

Note: 1. The Hainan Phase II Methanol Plant went into commercial operation on 1 December 2010. Its production volume in 2010 was included from the date of commercial operation only.

2. The CNOOC Tianye POM Plant went into commercial operation on 1 October 2011. Its production volume in 2011 was included from the date of commercial operation only.

Sales Management

Through reasonable deployment of resources and fine-tuning of customer management in 2011, the Company ensured the sales of fertilisers and methanol products. We have also dedicated a regional marketing and sales format for POM products after conducting a thorough pre-launch investigation and research, and attained our expected sales target through establishing a reasonable sales and logistics network for the successful launch of new products into the market.

Urea

The following table sets out the Group's urea sales volumes by final destinations of products during the preceding two financial years:

	Year ended 31 December			
	2011		2010	
Sales Region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**125,079**	**6.7**	130,039	6.6
Northern China	**479,470**	**25.7**	322,612	16.3
Eastern China	**148,938**	**8.0**	143,037	7.2
South-eastern China	**85,484**	**4.6**	73,814	3.7
Southern China	**601,627**	**32.2**	515,174	26.0
Hainan	**196,639**	**10.5**	157,773	8.0
International	**230,183**	**12.3**	641,595	32.2
Total	**1,867,420**	**100.0**	1,984,044	100.0

Phosphate fertilisers

The following table sets out the Group's phosphate fertiliser sales volumes by final destinations of products during the preceding two financial years:

	Year ended 31 December			
	2011		2010	
Sales Region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**217,486**	**50.6**	270,149	56.3
Northern China	**98,234**	**22.8**	93,405	19.5
Eastern China	**56,013**	**13.0**	54,884	11.4
South-eastern China	**17,139**	**4.0**	586	0.1
Southern China	**19,439**	**4.5**	4,593	1.0
International	**21,722**	**5.1**	55,939	11.7
Total	**430,033**	**100.0**	479,556	100.0

Methanol

The following table sets out the Group's methanol sales volumes by final destinations of products during the preceding two financial years:

	Year ended 31 December			
	2011		2010	
Sales Region	Volume *(tonnes)*	Percentage *(%)*	Volume *(tonnes)*	Percentage *(%)*
North-eastern China	**43,306**	**2.9**	48,081	5.5
Northern China	**41,548**	**2.8**	77,338	8.9
Eastern China	**193,477**	**13.0**	92,983	10.7
South-eastern China	**193,387**	**13.0**	40,284	4.6
Southern China	**947,163**	**63.4**	540,257	62.3
Hainan	**74,055**	**4.9**	67,916	8.0
Total	**1,492,936**	**100.0**	866,859	100.0

POM

The CNOOC Tianye 60,000 tonnes/year POM Plant in Inner Mongolia went into commercial operation on 1 October 2011 and produced a total of 10,104 tonnes of POM with a sales volume of 6,491 tonnes.

BB fertilisers

In 2011, the Group produced a total of 52,531 tonnes of BB fertilisers with a sales volume of 50,963 tonnes.

Sea-land logistics services

In 2011, the volume of freight throughput of the Hainan Basuo achieved a historical record of 8.02 million tonnes.

Financial Review

Revenue

In 2011, the Group's revenue was RMB9,756.3 million, an increase of RMB2,889.0 million or 42.1%, from RMB6,867.3 million in 2010.

In 2011, the Group's revenue of urea was RMB4,047.1 million, an increase of RMB532.3 million or 15.1%, from RMB3,514.8 million in 2010. The increase was primarily attributable to: (1) the increase in selling prices of urea by RMB395.7 per tonne, contributing to an increase of RMB738.9 million in revenue; which was partly offset by (2) the decrease in sales volume of urea by 116,624 tonnes from 2010, contributing to a decrease of RMB206.6 million in revenue.

In 2011, the Group's revenue from phosphate fertilisers was RMB1,349.8 million, an increase of RMB115.7 million or 9.4%, from RMB1,234.1 million in 2010. The increase was primarily attributable to: (1) the increase in selling prices of phosphate fertilisers by RMB565.3 per tonne, contributing to an increase of RMB243.1 million in revenue; which was partly offset by (2) the decrease in sales volume of phosphate fertilisers by 49,523 tonnes over last year, contributing to a decrease of RMB127.4 million in revenue.

In 2011, the Group's revenue from the methanol segment was RMB3,345.9 million, a massive increase of RMB1,655.0 million or 97.9%, from RMB1,690.9 million in 2010. The increase was primarily attributable to: (1) the Hainan Phase II Methanol Plant went into commercial operation in December 2010, contributing to increases in sales volume of methanol by 626,077 tonnes and revenue of RMB1,403.1 million during the reporting period; and (2) the increases in selling prices of methanol by RMB290.6 per tonne, contributing to an increase of RMB251.9 million in revenue.

In 2011, the Group's revenue from other segments (primarily comprising manufacture and sales of BB fertilisers, POM and woven plastic bags, trading of fertilisers and chemicals, port operations and provision of transportation services) increased by RMB586.0 million, which was primarily attributable to: (1) an increase in revenue of RMB397.2 million from BB fertilisers and trading of fertilisers; (2) the increase in throughput and transportation volumes by Basuo Port over last year, contributing to an increase in revenue of RMB129.4 million; and (3) revenue of RMB59.4 million from new POM products.

Cost of sales

In 2011, the Group's cost of sales was RMB6,488.7 million, an increase of RMB1,810.2 million or 38.7%, from RMB4,678.5 million in 2010.

In 2011, the Group's cost of sales of urea was RMB2,468.3 million, an increase of RMB259.1million or 11.7%, from RMB2,209.2 million in 2010. The increase was primarily attributable to: (1) the realignment of urea export tariff policy and increase in export prices of urea, contributing to an increase in Hainan urea export tariffs of RMB163.0 million; (2) the increase in natural gas prices and plant overhauls, contributing to an increase in costs of RMB222.1 million; which were partly offset by (3) the decrease in sales volume of urea by 116,624 tonnes over 2010, contributing to a decrease in cost of RMB126.0 million.

In 2011, the Group's cost of sales of phosphate fertilisers was RMB1,124.9 million, an increase of RMB126.7 million or 12.7%, from RMB998.2 million in 2010. The increase was primarily attributable to: (1) an increase in cost of sales by RMB229.8 million due to increases in raw material prices of liquid ammonia and sulphur; which was partly offset by (2) a decrease in sales volume of phosphate fertilisers by 49,523 tonnes over last year, contributing to a decrease in cost by RMB103.1 million.

In 2011, the Group's cost of sales of methanol was RMB1,951.7 million, an increase of RMB851.1 million or 77.3%, from RMB1,100.6 million in 2010. The increase was primarily attributable to: (1) the increase in the Group's sales volume of methanol, as the Hainan Phase II Methanol Plant went into commercial operation in December 2010, by 626,077 tonnes over 2010, contributing to a RMB818.5 million increase in cost; and (2) the increases in natural gas prices and plant overhauls, contributing to an increase in cost of RMB32.6 million.

In 2011, the Group's cost of sales from other segments increased by RMB573.3 million over 2010. The increase was primarily attributable to: (1) an increase in costs of BB fertilizers and trading of fertilisers of RMB366.2 million; (2) the increase in the throughput and transportation volumes of Basuo Port, contributing to an increase in cost of RMB110.2 million and (3) the increase in cost of new POM products by RMB96.9 million.

Gross profit

In 2011, the Group's gross profit was RMB3,267.6 million, an increase of RMB1,078.9 million or 49.3%, from RMB2,188.7 million in 2010. The increase was primarily attributable to: (1) the increase in selling prices and sound cost control by the Group, contributing to increases in gross profit of methanol, urea and other segment by RMB803.9 million, RMB273.2 million and RMB12.8 million respectively, of which the gross profit of Hainan Phase II Methanol Plant increased by RMB668.1 million; which was partly offset by (2) a decrease in sales volume of phosphate fertilisers, contributing to a decrease in gross profit of RMB11.0 million.

Other income and gains

In 2011, the Group's other income and gains were RMB127.9 million, an increase of RMB60.6 million or 90.0%, from RMB67.3 million in 2010. The increase was primarily attributable to: (1) an increase of RMB62.1 million in gains from entrusted funds; (2) a government award of RMB9.5 million received by DYK Chemical for its phosphoric ore selection technique; which were partly offset by (3) a decrease in income from sales of materials of RMB11.0 million.

Selling and distribution costs

In 2011, the Group's selling and distribution costs were RMB169.4 million, an increase of RMB21.6 million or 14.6%, from RMB147.8 million in 2010. The increase was primarily attributable to the increases in expenses in loading and unloading, transportation and warehousing of methanol and POM.

Administrative expenses

In 2011, the Group's administrative expenses were RMB418.3 million, an increase of RMB35.7 million or 9.3%, from RMB382.6 million in 2010. The increase was primarily attributable to: (1) the increases in wages, leasing expenses and taxation expenses of RMB22.3 million; and (2) increases of RMB13.4 million in expenses of technical research expenses and project preparation expenses.

Other expenses

In 2011, the Group's other expenses were RMB32.1 million, a decrease of RMB2.7 million or 7.8%, from RMB34.8 million in 2010. The decrease was primarily attributable to the absence in 2011 of last year's bad debts provisions of RMB1.5 million.

Finance income and finance costs

In 2011, the Group's finance income was RMB16.0 million, an increase of RMB4.7 million or 41.6%, from RMB11.3 million in 2010. The increase was primarily attributable to the increase in interest income.

During the reporting period, the Group's finance costs were RMB18.0 million, an increase of RMB6.1 million or 51.3%, from RMB11.9 million in 2010. The increase was primarily attributable to the increase in interest expenses of RMB5.0 million as the Tianye POM Plant in Inner Mongolia went into commercial operation in October 2011; and (2) the increase in interest expenses of the Hainan Phase II Methanol Plant.

Exchange gains/(losses), net

In 2011, the Group recorded net exchange gains of RMB2.3 million, an increase of RMB6.5 million or 154.8% from the exchange losses of RMB4.2 million in 2010. The increase in net exchange gains was primarily attributable to the conversion of the US dollar into Renminbi of urea exports payments.

Share of profit of an associate

Shanxi Hualu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal"), an associate of the Company who holds 49% equity interests, was unable to resume production since its suspension of work in March 2010. Pursuant to the requirements of IAS 28 and IAS36, where an indication of impairment exists, the asset's recoverable amount is estimated. Zhonglian Asset Appraisal Group Limited was appointed by the Company to conduct an appraisal of Yangpoquan Coal as at 31 December 2011 based on the discounted future cash flows method, which concluded that the estimated recoverable amount of Yangpoquan Coal as at 31 December 2011 was RMB1,383.2 million. Accordingly, the recoverable amount of the long-term equity investment, calculated by the management on a pro rata basis, was higher than its carrying value of RMB653.2 million.

Income tax expense

In 2011, the Group's income tax expense was RMB556.4 million, an increase of RMB240.4 million or 76.1%, from RMB316.0 million in 2010. The increase was primarily attributable to: (1) the substantial increase in profit before tax, contributing to an increase in enterprise income tax expense of RMB218.6 million; and (2) the increase in applicable tax rate, contributing to an increase of income tax expense of RMB21.8 million during the reporting period.

Net profit for the year

In 2011, the Group's net profit was RMB2,219.7 million, an increase of RMB850.0 million or 62.1%, from RMB1,369.7 million in 2010. The increase in net profit was primarily attributable to the increases in selling prices of urea, phosphate fertilisers and methanol, the additional profit from the Hainan Phase II Methanol Plant and the sound cost control of the Group.

Dividends

The Board recommended the payment of a final dividend of RMB0.16 per share for 2011, aggregating RMB737.6 million.

The proposed final dividend for 2011 will be subject to the approval of the shareholders of the Company at the 2011 annual general meeting.

Capital expenditure

In 2011, the Group's capital expenditure in respect of acquisition, property, plant and equipment and prepaid land lease payments amounted to RMB1,778.2 million. Capital expenditure primarily included: (1) RMB946.0 million for the DYK Chemical Plant Phase II Expansion Project; (2) RMB397.7 million for the Huahe 520,000 tonnes/year Urea Project; (3) RMB231.7 million for upgrades and equipment purchases for production plants; (4) RMB148.9 million for the Inner Mongolia POM Project; (5) RMB33.3 million for expansion and improvement construction of Basuo Port; and (6) RMB20.6 million for the phosphate and chemical projects in Jinlin, Guizhou.

Pledge of assets

In 2011, the Group did not pledge any assets.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital structure in order to safeguard its normal production and operations in order to maximise shareholders' value. The Group manages its capital structure and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of new debts or issue of new shares. The gearing ratio of the Group as at 31 December 2011 (calculated as interest-bearing liabilities divided by total capitalisation plus interest-bearing liabilities) was 3.04%, an increase of 0.30% from 2.74% as at 31 December 2010, which was primarily attributable to the drawdown of loans of RMB325.0 million for the 60,000 tonnes/year POM Project and the production expansion and renovation project of DYK Chemical and the repayment of loans of RMB235.7 million for the Hainan Phase II Methanol Plant during the reporting period.

Cash and cash equivalents

As at the beginning of the reporting period, the Group's cash and cash equivalents were RMB2,387.1 million. The net cash inflow from operating activities was RMB2,830.5 million, net cash outflow from investing activities was RMB1,911.3 million, and net cash outflow from financing activities was RMB503.0 million for the reporting period. As at 31 December 2011, the Group's cash and cash equivalents were RMB2,803.3 million. The Group has sufficient working capital to meet the funds required for its day-to-day operation and future development.

Human resources and training

As at 31 December 2011, the Group had 5,851 employees. The aggregate of employees' wages and allowances for 2011 was approximately RMB446.6 million. The Group has an effective remuneration package policy and a systematic welfare plan as well as an effective performance appraisal system in place to ensure that the remuneration policy of the Company effectively provides incentive to its staff. The Company determines staff remuneration according to their positions, performance and capability.

During the reporting period, the Company held 2,889 training courses, with a total of 58,721 enrolments and 416,184 training hours.

Market risks

The major market risks of the Group are exposure to changes in the selling prices and costs of raw materials (mainly natural gas, phosphate ore, ammonia and sulphur), fuels (mainly coal), energy costs of key products and fluctuations in interest rates or exchange rates.

Commodity price risk

The Group is also exposed to commodity price risk arising from changes in sales prices and costs of raw materials of products and fuels.

Interest rate risk

The major interest rate risk that the Group is exposed to includes the Group's long-term debt obligations which are subject to floating interest rates.

Foreign exchange risk

The Group's revenue was primarily denominated in Renminbi and secondarily in US dollar. During the reporting period, the Renminbi to US dollar exchange rate ranged from 6.3009- 6.6349. The appreciation of Renminbi against the US dollar may have produced a double effect. The Group's revenue from sales of products may have declined as a result of the depreciation of the US dollar against Renminbi, whereas import prices for equipment and raw materials may also have been reduced.

As at 31 December 2011, the Group had no other debts which are denominated in currencies other than RMB.

Inflation and currency risk

According to the National Bureau of Statistics of China, the consumer price index of the PRC increased by 5.4% during the reporting period, which did not have a significant effect on the Group's operating results for the year.

Liquidity risk

The Group monitors its risk to a shortage of funds. The Group also considers the liquidity of both its financial investments and financial assets (for example, trade receivables and other financial assets) and projected cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans and bonds. As at 31 December 2011, none of the Group's debts would mature in less than one year based on the carrying values of the borrowings in the financial statements.

Post balance sheet events and contingent liabilities

After the reporting period to the date of this annual report, the Group had no material post balance sheet events.

As at 31 December 2011, the Group had no material contingent liabilities.

Material litigation and arbitration

As at 31 December 2011, the Group had no material litigation and arbitration.

Major acquisition and disposition of the Company's subsidiaries and associates

As at 31 December 2011, the Group had no major acquisition and disposition.

Outlook

The Company will focus on fulfilling the following tasks in 2012:

1. Strive to achieve safe, stable and highly efficient operation of major production plants by perfecting the major overhauls of the Hainan Fudao Phases I and II Urea Plants and the Hainan Phase II Methanol Plant;

2. Further optimise the production technology and enhance the utilisation rate of the Mongolia POM Plant in order to upgrade the functions and quality of our products;

3. Strive to commence the trial production of the ammonium phosphate production expansion and renovation project of DYK Chemical in Hubei by April 2012 through satisfactory testing and fine-tuning of all equipments;

4. As the progress of the exploration and development work of the upstream ancillary coal resources of the Huahe coal-based urea project in Hegang significantly fell behind the downstream coal chemical project, the Company decided to slow down the construction of this project. And, due to the problems associated with the joint venture partner of the Yangpoquan coal mine, the Yangpoquan coal mine is unable to resume production since its stoppage in March 2010. The Company decided to suspend the construction of the Hualu coal-based urea project in Hequ, Shanxi in order to control the investment risk. Our main task for the year is to push forward the exploration and development work of the ancillary coal mine of the Huahe coal-based urea project in Hegang, Heilongjiang and to resolve the dispute with the joint venture partner of the Yangpoquan coal mine in Hualu, Shanxi as soon as possible;

5. Complete the preliminary work of the conversion of the Inner Mongolia base of Tianye from natural gas-based to coal-based;

6. Further extend our sales and trading network to smoothen the sales of our existing POM products and the phosphate fertiliser products to be produced;

7. Further improve HSE management, energy-saving and reduction of emissions; and

8. Continue to seek mergers and acquisition opportunities in China and overseas that match the development strategy of the Company.

Quality, Health, Safety and Environmental Protection

In 2011, the Company continued to adhere to the safety management philosophy of "Safety First, Prevention-oriented" through fortifying management of health, safety and environmental protection and securing steady trend in safety production. The HSE's management targets have been achieved, and ensured that shareholders' value, customers' interests, employees' health and social responsibility are highly coherent.

Quality Control

The Company ensures that its quality targets are attained by implementing its quality control management system in a strict and consistent manner.

During the reporting period, the Company's urea products attained a superior quality rate of 99.57% with a 100% pass rate on net weight of single packet and a 94% customer satisfaction rate, methanol products attained a superior quality rate of 100% with a 98.20% of customer satisfaction rate, and DAP products attained a superior quality rate of 100%.

Health, Safety and Environmental Protection (HSE)

In 2011, the Company undertook fine-tuning of the HSE systems by building a new regime of systems, including safety, environmental protection and occupational health, production quality, energy-saving and emission-reduction, and mine management system.

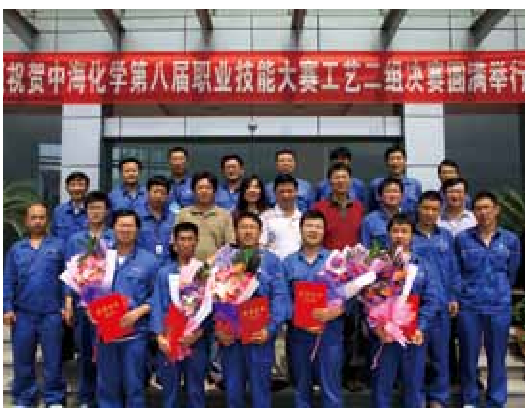
During the reporting period, the Company was active in building a safety management information platform, having commenced the construction of a safety management information system which will embed the safety philosophy into the overall process of managing and controlling activities of the Company to facilitate easy and convenient accesses to all sorts of data for making enquiries, statistics, analysis and appraisals. Identifying and analysing factors of hazards through safety assessments will provide proof of support for decision-making.

During the period, the Company has set up an emergency-response management unit with an emergency-response system through which emergency response drills were organised and executed to enhance our emergency-response management standard.

During the reporting period, the Company were active in inspecting clean production by laying out the implementation plan for clean production in order to enhance energy efficiency, minimise consumption of water resources and reduce emission of pollutants. In May 2011, CNOOC Fudao Limited was awarded the honour of an "Advanced Unit in Environmental Protection of Petrochemical Industry of the PRC in the Eleventh Five-year Plan".

In 2011, the Company achieved excellent results in HSE management. No major accident or incident of responsibility, or occupational hazards occurred during the year. The OSHA index of recordable incident was only 0.0237.

Human Resources



Adhering to the personnel objective and philosophy of "Staff-Oriented, Employee-Caring" and the goals of fully capitalising the initiative and creativity of all types of talents, the Company strives to advance the development of production, scientific research and management team building, in order to perfect the improvement of its talent team building mechanism. In 2011, building on its existing system and after some streamlining processes, the Company established a human resources management system which covers all of the employees of its subsidiaries. In 2011, through optimising work and distribution system, grasping key points and pinpointing performance appraisal and enhancing actual results of incentives, as well as expansion of training efforts, the Company offers a strong organisation and available talents for its development.

Remuneration and Welfare

Taking into account the basis of market competition and internal fairness, the Company provides employees with a sophisticated and highly competitive remuneration and welfare system. Staff remunerations are determined according to their positions, performances and capabilities.

In 2011, the Company completed the overall optimisation plan for work and remuneration system of Hegang Huahe Coal Chemical Ltd. in Heilongjiang by establishing the promotion channels for management, technicians and operators of that company which is beneficial to deploying staff positively.

Performance Appraisal

In order to ensure the joint development of both the Company and its employees, the Company established a scientific performance appraisal scheme and an effective incentive and binding mechanism.

In 2011, based on the tenets of "Objectivity, Equity, Fairness and Thoroughness", the Company conducted an overall appraisal of all staff, by focusing on work performance and functionality in close association with its annual work assignments and objectives.

Training Management

The training of new managers and senior to middle level management of all units of our organisation are centred on the development of the six aspects of attitude, self-learning, cognition, professionalism, management skills and innovative ability.

In 2011, our staff participated in the Fourth Occupational Skill Competition of CNOOC and the Fourth Occupational Skill Competition of the National Petrochemical Industry and achieved excellent results. We won the gold medal for oil extraction instrument workers and maintenance fitters at the CNOOC Competition and the first overall in team and the first three in individual competitions for maintenance fitters at the National Competition.

As at the end of 2011, the Company held 2,889 training courses with the participation of 58,721 staff, with total training hours amounted to 416,183 hours.


创建学习型班组
打造知识型人

Corporate Governance Report

In 2011, the Company strove to implement a high standard in corporate governance in order to fulfil the Company's stable and healthy development as well as to safeguard shareholders' best interests. During the reporting period, the Company has complied with the relevant code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Since its listing, the Company has established a modern corporate governance structure which is well-balanced and independently-operated by the general meetings, the Board, the supervisory committee of the Company (the "Supervisory Committee") and senior management of the Company in accordance with the laws and regulations, such as the Company Law of the People's Republic of China (the "Company Law"), rules and guidelines issued by domestic and overseas regulatory bodies, and the provisions of the Listing Rules and the Corporate Governance Code.

The Company attaches great importance to the establishment and enhancement of its standardised and efficient corporate governance structure and believes that a good corporate governance structure is the cornerstone of the Company's compliance operation. Through fully elaborating the decision-making role of the Board and the supervisory role of the Supervisory Committee, the Company safeguarded the interests of the shareholders and achieved a standardised and efficient operation. In 2011, the Company revised and improved its "Rules in respect of the Proceedings of Board Meetings", appointed a new director of the Company pursuant to the resolution of an extraordinary general meeting, and realigned to the compositions of the Remuneration Committee and the Investment Review Committee at the Board meetings. In addition, the Company established an independent board committee in respect of the continuing connected transactions for 2012-2014 which required independent shareholders' approval.

The corporate governance practices of the Company are summarised as follows:

1 General Meetings

Duties of General Meetings

A general meeting, which is the organ of authority of the Company, is authorised by law to exercise the following responsibilities:

- to decide on operating strategies, investment plans, proposals for annual financial budgets and final accounts, and proposals for profit allocations and losses recovery of the Company;

- to elect and replace directors and supervisors who are not employee representative supervisors and to fix the remunerations of directors and supervisors;
- to consider and approve reports of the Board and the Supervisory Committee, respectively;
- to pass resolutions on matters such as changes in registered capital, mergers, demergers, changes in corporate form, dissolution and liquidation of the Company;
- to pass resolutions on issuance of bonds and other securities and listing of the Company;
- to pass resolutions on appointment, removal or non-reappointment of the accounting firm;
- to consider and approve major guarantees and acquisitions or disposals of major assets of the Company;
- to amend the articles of association of the Company (the "Articles");
- to consider and approve new motions proposed by shareholders, either individually or collectively, holding three percent or more of the shares of the Company carrying the right to vote:
- to consider and approve share incentive schemes;
- to deal with matters authorised or delegated by the general meetings to the Board;
- other matters which are required by laws, administrative regulations and the Articles to be resolved by the general meeting.

Information on General Meetings

During the reporting period, three general meetings of the Company were held, of which seven resolutions in respect of the financial report, the directors' report, the report of the Supervisory Committee and the profit allocation proposal of 2010 and the budget proposal of 2011 of the Company were considered and passed at the Annual General Meeting, the resolution in respect of the appointment of Mr. LI Hui as a non-executive Director of the Company was considered and passed at the First Extraordinary General Meeting and eight resolutions in respect of the agreements or supplemental agreements of the 2012 - 2014 continuing connected transactions and their transaction caps were considered and passed at the Second Extraordinary General Meeting.

The general meeting is the organ for the shareholders of the Company to exercise their authority. The holding and the approval procedures of resolutions of the above general meetings have complied with the relevant laws and regulations and the relevant provisions of the Articles, thereby effectively safeguarded the interests of all shareholders of the Company.

Shareholders' Rights

Pursuant to the provisions of the Articles, the shareholders of the Company shall have statutory rights in the following three aspects:

Requisition of extraordinary general meetings

When shareholders, individually or collectively, holding ten per cent or more of the issued and outstanding shares of the Company carrying the right to vote, request in writing the holding of an extraordinary general meeting, the Board shall hold an extraordinary general meeting within 2 months and include the motions proposed by the shareholders in the agenda of the meeting.

A general meeting requisitioned by shareholders shall be presided over by the representative nominated by such shareholders.

Proceedings for proposing resolutions in general meetings and information available thereon

Where a general meeting is being convened by the Company, shareholders individually or collectively holding three per cent or more of the shares of the Company carrying the right to vote, shall be entitled to propose and submit new motions in writing ten days before the date of a general meeting to the convenor of the general meeting, who should issue a supplementary notice of general meeting within two days after receipt of the same to all other shareholders and include the motions that fall within the scope of duties of a general meeting in the agenda of the meeting and table them for consideration by the general meeting.

Motions for a general meeting should satisfy the following conditions: (1) The contents of the motions should not contravene the provisions of law and regulations and fall within the scope of duties of a general meeting; (2) The resolutions should have clear topics for discussion and details of matters to be decided; and (3) The motions should have been submitted or lodged with the Board in writing.

Proceedings of making enquiries to the Board and information available thereon

Shareholders of the Company shall receive the Articles after payment of fees at cost in accordance with the provisions of the Articles; shall be entitled, after payment of reasonable fees, inspect and photocopy the following information, including the registers of members, personal information of the directors, supervisors, president and other senior management of the Company; the status of share capital of the Company; the report of the total nominal value, quantities, highest and lowest prices of every class of shares repurchased by the Company and all expenses paid by the Company thereon since the previous accounting year; minutes of general meetings, resolutions of Board meetings and the Supervisory Committee; and counterfoils of corporate bonds and financial reports of the Company.

2 Board of Directors

The Board comprises all Directors of the Company, and is the decision-making body within the Company's corporate governance structure. The Board is accountable to the general meeting and is responsible for leading and supervising the Company, collectively formulating business strategies and overseeing the affairs of the Company.

Duties of the Board

Although it delegates authorities and responsibilities to the management for the purposes of implementing business strategies and managing day-to-day business operations of the Group, the Board is jointly responsible for formulating business strategies and policies, operating plans and investment proposals, establishing management objectives, reviewing the performance of the Company, evaluating the effectiveness of management strategies, formulating the Company's proposals for profit allocations and making-up losses, appointing or removing senior management of the Company and fixing their remunerations, deciding on the establishment of the Company's internal management structure, formulating the Company's basic management regime, and exercising proprietary powers, including, inter alia:

- To call and report to general meeting;
- To implement the resolutions of the general meeting;
- To formulate the operating strategies, investment proposals, proposals for annual financial budgets and final accounts, and proposals for profit allocations and losses recovery of the Company;
- To prepare proposals of increase or reduction of the registered capital, issuance of bonds and other securities, and listing of the Company;
- To formulate proposals of mergers, demergers, changes in corporate form and dissolution of the Company;
- To decide on the establishment of the Company's internal management structure;
- To appoint or remove the President of the Company, appoint or remove other senior management based on the nomination of the President and fix their remunerations;
- To formulate the basic management regime of the Company;
- To prepare proposals of amendments to the Articles;
- To propose the appointment, re-appointment or dismissal of accounting firms for the provision of auditing services to the Company to the general meeting;
- To exercise other authorities stipulated in the Articles or conferred by general meetings.

Directors

The profiles of the Directors are set out on pages 30 to 31 of this annual report. No relationship (including financial, business, family or other significant or relevant relationship) exists among the members of the Board. All Directors have actively participated in training organized by the Company and are fully aware of their individual and collective responsibilities to the shareholders. The appropriate professional knowledge and management experience of members of the Board encompassing all aspects of corporate governance have assured the efficient operation and scientific and correct decision-making process of the Board.

The Board consists of seven Directors as of 31 December 2011, including three executive Directors, one non-executive Director and three independent non-executive Directors. The composition and structure of the Board has not only complied with the provisions of the Company Law and the Listing Rules and catered to the needs of the Company's actual operating conditions and development, but also established an efficient internal balancing mechanism of the Company.

The Board complied with the Listing Rules of having at least three independent non-executive Directors whose qualifications were in full compliance with the requirements of Rules 3.10(1) and (2) of the Listing Rules. In addition, the Company has received annual confirmation letters from each of its independent non-executive Directors acknowledging full compliance with the relevant requirements in respect of their independence. The Board has assessed the independence of each independent non-executive Director and therefore considers all independent non-executive Directors to be independent within the meaning of the Listing Rules. The independent non-executive Directors have no business or financial interests in either the Company or its subsidiaries, nor do they hold executive positions in the Company. Independent non-executive Directors owe a fiduciary duty to the Company and its shareholders, and in particular, are entrusted with the duty to safeguard the interests of minority shareholders. They perform a vital balancing function in the decision-making process of the Board and play a key role in corporate governance. In 2011, an independent board committee comprising the independent non-executive Directors issued an opinion letter in respect of the continuing connected transactions of the Company for 2012 to 2014 on the basis of an independent financial adviser's advice and expressed their views and advices on matters concerning the interests of shareholders and the Company as a whole at the Board meetings.

Each of the non-executive Director and independent non-executive Directors entered into a service contract with the Company for a term of three years from 12 June 2009 (save for Mr. LI Hui and Mr. GU Zongqin). In accordance with the service contracts, their terms of office commenced on 12 June 2009 (save for Mr. LI Hui and Mr. GU Zongqin) and expire until new non-executive Director and independent non-executive Directors are elected at the general meeting held in the year when their terms of office expire. If, however, non-executive Director and independent non-executive Directors are not re-elected promptly when their terms of office expire, the existing non-executive Director and independent non-executive Directors shall, in accordance with the provisions of the laws, regulations, and the Articles, perform their duties as non-executive Director and independent non-executive Directors prior to the election at the general meeting held in the year when their terms of office expire.

As of 31 December 2011, the members of the current session of the Board of the Company are as follows:

Board member	Position	Date of Appointment
LI Hui	Chairman and non-executive Director	28 July 2011 (note 1)
YANG Yexin	Executive Director	12 June 2009
FANG Yong	Executive Director	12 June 2009
CHEN Kai	Executive Director	12 June 2009
ZHANG Xinzhi	Independent Non-executive Director	12 June 2009
TSUI Yiu Wa, Alec	Independent Non-executive Director	12 June 2009
GU Zongqin	Independent Non-executive Director	4 June 2010

Note:

(1) Mr. LI Hui was appointed as a non-executive Director on 28 July 2011 and as the Chairman of the Company on 29 July 2011.

(2) The terms of office of the above Directors (save for Mr. LI Hui and Mr. GU Zongqin) are for three years. The term of office of Mr. GU Zongqin commenced on 4 June 2010 and expires until the election of the new session of Directors at the 2011 annual general meeting of the Company. The term of office of Mr. LI Hui commenced on 28 July 2011 and expires until the election of the new session of Directors at the 2011 annual general meeting of the Company. Each Director is eligible for re-election when his term of office expires.

Information of Board Meetings

During the reporting period, the Board held six regular meetings, which were held in compliance with relevant laws and regulations and the Articles. The agenda were set after consultation with members of the Board. The Directors must declare their direct and indirect interests (if any) in relation to the issues discussed at Board meetings. The Directors having such interests must abstain from voting on such issues at such meeting and shall not be counted in the quorum. The minutes of Board meetings are kept by the Board Secretary.

Where necessary, Directors can seek independent professional opinions at the Company's expense.

Attendance of Board members at Board meetings for the year ended 31 December 2011:

Director	Attendance/Number of meetings	Attendance rate (%)
LI Hui (note 1)	4/4	100
WU Mengfei (note 2)	2/2	100
YANG Yexin	6/6	100
FANG Yong	6/6	100
CHEN Kai	6/6	100
ZHANG Xinzhi	6/6	100
TSUI Yiu Wa, Alec	6/6	100
GU Zongqin	6/6	100

Note:

(1) Mr. LI Hui was appointed as a non-executive Director of the Company on 28 July 2011. Four Board meetings were held in total from 28 July 2011 to 31 December 2011.

(2) Mr. WU Mengfei resigned as a non-executive Director of the Company on 29 July 2011. Two Board meetings were held in total from 1 January 2011 to 29 July 2011.

During the reporting period, in compliance with the requirements of domestic and overseas laws and regulations, the Board meetings of the Company were held effectively having capitalised on its decision-making roles in all aspects of strategy setting, production and operation, projects investment and corporate management fully, effectively driven its standardised corporate governance and highly efficient operation, further enhanced its stringent corporate governance image and safeguarded the interests of its shareholders.

Committees of the Board

Subordinated to the Board are four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Review Committee, each of which has its own defined and written terms of reference approved by the Board covering its duties, powers and functions. Each committee has adequate resources to perform its duties, reports to the Board regularly, submits major issues and findings, and provides valuable recommendations to assist the Board in making decisions.

In addition, during the reporting period, in view of the continuing connected transactions arising from time to time, which require independent shareholders' approvals, an independent board committee was established to offer advices to independent shareholders in respect of the continuing connected transactions tabled for voting at the extraordinary general meeting of the Company.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely, Mr. TSUI Yiu Wa, Alec, Mr. ZHANG Xinzhi and Mr. GU Zongqin, of which Mr. TSUI Yiu Wa, Alec is the Chairman.

The Audit Committee has adopted the terms of reference recommended by the Corporate Governance Code and its current version is published on the website of the Company. The primary duties of the Audit Committee are to review and supervise the integrity and preparation procedures of the financial reports of the Group and review the annual production operation and financial budget proposals. The Audit Committee is also responsible for the review of the independence and objectivity of the external auditors of the Company and the validity of audit procedures, the review of the appointment, remuneration and terms of engagement of auditors and any issues in connection with the appointment and dismissal of auditors. In addition, the Audit Committee is also responsible for reviewing the effectiveness of the internal control procedures of the Company to ensure efficiency of business operation and fulfilment of the Company's corporate objectives and strategies. The Audit Committee also examines the annual internal audit work planning of the Company and submits relevant reports, deliberations and recommendations to the Board.

The Audit Committee held three meetings in 2011 where their work performed were summarised as follows:

- Reviewed the 2010 financial statements and the 2011 interim financial statements, in particular, focusing on their compliance with accounting standards, the Listing Rules and other regulations, and provided recommendations and advices to the Board;
- Reviewed the 2012 operating and financial budgets;
- Reviewed the statutory audit plan of the external auditor and the nature and scope of their audit prior to the commencement of the audit;
- Met and further discussed the internal financial audit with the external auditor;
- Reviewed the internal audit findings and recommendations for 2010 and approved the internal audit plan for 2011;
- Reviewed the effectiveness of the internal control system of the Company;
- Approved the audit fees and the terms of engagement of the external auditor; and
- Reviewed the independence of the external auditor and provided recommendations to the Board on re-appointment of the external auditor.

Attendance of members of Audit Committee at committee meetings in 2011:

Audit Committee member	Attendance/Number of meetings	Attendance rate (%)
TSUI Yiu Wa, Alec (Chairman)	3/3	100
ZHANG Xinzhi	3/3	100
GU Zongqin	3/3	100

Remuneration Committee

Mr. LI Hui was appointed as a member of the Remuneration Committee on 29 July 2011 while Mr WU Mengfei resigned as a member of the Remuneration Committee on 29 July 2011. The current Remuneration Committee consists of three members, including two independent non-executive Directors, namely, Mr. ZHANG Xinzhi and Mr. TSUI Yiu Wa, Alec, and one non-executive Director, Mr. LI Hui, of which Mr. ZHANG Xinzhi is the Chairman.

The Remuneration Committee has adopted the terms of reference recommended by the Corporate Governance Code and its current version is published on the website of the Company. The Remuneration Committee is primarily responsible for studying, reviewing and formulating the remuneration policies and proposals, including the standards, procedures and major regimes of performance appraisal, and major proposals and system of rewards and penalties, of the Directors, Supervisors and senior management of the Company, and making recommendations thereon to the Board. It is also responsible for monitoring the implementation of the Company's remuneration system. In discharging its duties, the Remuneration Committee may consult the Chairman, President and other executive Directors.

Remuneration policy for executive Directors: the remuneration package policy for executive Directors is designed to peg the executive Directors' remuneration and their performance with the Company's corporate objectives and operating results, while taking into account market conditions, providing performance incentives to and retaining executive Directors.

Remuneration policy for non-executive Directors: remuneration of non-executive Directors (including independent non-executive Directors) is subject to approval by the Company's general meeting. The remunerations of non-executive Directors are mainly fixed after taking into consideration the complexity of the matters to be handled by them and their responsibilities. Pursuant to the service contracts entered into between the Company and the non-executive Directors (including independent non-executive Directors), the out-of-pocket expenses incurred in the performance of their duties (including attending meetings of the Company) by non-executive Directors are reimbursable by the Company.

Two meetings of the Remuneration Committee were held in 2011, during which the performance appraisal results and the exercise of rights proposal of the offerees of the 2009 and 2010 H Share Appreciation Rights were reviewed and recommendation to the Board in respect of fixing the remuneration of a non-executive Director of the Company, namely Mr. LI Hui, was made.

Attendance of members of Remuneration Committee at committee meetings in 2011:

Remuneration Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi (Chairman)	2/2	100
TSUI Yiu Wa, Alec	2/2	100
LI Hui	2/2	100

The Directors are not entitled to fix and approve their own remuneration. The remuneration of each of the Directors for the year ended 31 December 2011 is set out in Note 9 to the financial statements.

Nomination Committee

The Nomination Committee consists of three members, including two independent non-executive Directors, namely Mr. GU Zongqin and Mr. ZHANG Xinzhi, and an executive Director, Mr. YANG Yexin, of which Mr. GU Zongqin is the Chairman.

The Nomination Committee has adopted the terms of reference recommended in the Corporate Governance Code and its current version is published on the website of the Company. The Nomination Committee is primarily responsible to the Board for making recommendations in respect of appointments, re-appointments and succession of the Directors and senior management of the Company and relevant personnel appointed pursuant to the requirements of the Listing Rules, assessing and reviewing the structure, size and composition (including skills, knowledge and experience) of the Board and making recommendations in respect of the changes, re-elections and succession of the members of the Board based on certain standards adopted by the Committee, such guidance shall include the suitability of the Directors in terms of appropriate professional skills, knowledge and experience, personal integrity, honesty and skills, and the amount of time available for serving the business of the Board. The Nomination Committee also assesses the independence of each independent non-executive Director.

Two meeting of the Nomination Committee were held in 2011, at which the Committee provided relevant advices to the Board in respect of the nomination of Mr. LI Hui as a non-executive Director and the review of the resignation of the Company's non-executive Director, Mr. WU Mengfei.

Attendance of members of the Nomination Committee at committee meetings in 2011:

Nomination Committee member	Attendance/Number of meetings	Attendance rate (%)
GU Zongqin	2/2	100
ZHANG Xinzhi	2/2	100
YANG Yexin	2/2	100

Investment Review Committee

Mr. LI Hui was appointed as a member of the Investment Review Committee on 29 July 2011 while Mr. WU Mengfei resigned as a member of the Investment Review Committee on 29 July 2011. The current Investment Review Committee consists of four members, including two independent non-executive Directors, namely, Mr. ZHANG Xinzhi and Mr. TSUI Yiu Wa, Alec, one non-executive Director, Mr. LI Hui and one executive Director, Mr. YANG Yexin, of which Mr. ZHANG Xinzhi is the Chairman.

The Investment Review Committee is primarily responsible for reviewing investment projects beyond a certain threshold authorised by the Board for the decision-making authority of senior management and making the relevant recommendations to the Board.

Four meetings were held by the Investment Review Committee in 2011, at which the major investment projects of the Company in 2011 were reviewed and the opinion of the Committee was reported to the Board.

Attendance of members of the Investment Review Committee at committee meetings in 2011:

Investment Review Committee member	Attendance/Number of meetings	Attendance rate (%)
ZHANG Xinzhi (Chairman)	4/4	100
TSUI Yiu Wa, Alec	4/4	100
LI Hui (note 1)	3/3	100
WU Mengfei (note 2)	1/1	100
YANG Yexin	4/4	100

Note:

(1) Mr. LI Hui was appointed as a member of the Investment Review Committee on 29 July 2011. Three meetings of the Investment Review Committee were held in total from 29 July 2011 to 31 December 2011.

(2) Mr. WU Mengfei resigned as a member of the Investment Review Committee on 29 July 2011. One meeting of the Investment Review Committee was held in total during the period from 1 January 2011 to 29 July 2011.

3 Supervisory Committee

The Supervisory Committee is responsible to the general meeting and performs the following authorities in accordance with the laws:

- To review the financial matters of the Company;
- To oversee the performance of Directors and senior management when discharging their duties for the Company and make recommendations of dismissal of personnel in cases of breaches of laws, administrative regulations and the Articles;
- To order the Directors, President and other senior management to rectify any improper behaviour that would be detrimental to the interests of the Company;
- To verify financial information, such as financial reports, business reports and profit allocation proposals, submitted by the Board to the general meeting, and to authorise a certified public accountant or a practising auditor to re-examine the same in the name of the Company in case of doubt;
- To propose the holding of extraordinary general meetings, to organise and preside over general meetings when the Board fails to fulfil its responsibility under the Articles to do so;
- To make motions to general meetings;
- To lodge litigation against the Directors, President and other senior management of the Company in accordance with the Company Law; and
- To exercise other powers stipulated in the Articles.

The Supervisory Committee consists of three members at present, two of them are external supervisors (one is a shareholder's representative and the other is an independent supervisor) and one of them was elected by the employees of the Company.

For details of the work performed by the Supervisory Committee, please refer to the Report of the Supervisory Committee of this annual report.

4 Senior Management

The senior management consists of the Chief Executive Officer, President, Executive Vice President, Chief Financial Officer, Vice President and Board Secretary. The Chief Executive Officer/President is accountable to the Board, while all functional departments and other senior management report to the Chief Executive Officer/President. The Chief Executive Officer/President has the authority to organise and carry out operational and managerial activities of the Company in accordance with the laws and regulations, the Articles and powers authorised by the Board, and exercise the following major powers:

- To oversee the management of production and operation and to organise and carry out the resolutions of the Board;
- To organise and implement the annual operating plans and investment proposals of the Company;
- To propose the establishment of the Company's internal management structures;
- To propose the basic management regime of the Company;
- To formulate the basic rules of the Company;
- To recommend the appointment or dismissal of the Executive Vice President, Chief Financial Officer or Vice President of the Company;
- To appoint or dismiss management staff other than those required to be appointed or dismissed by the Board;
- To sign the securities issued by the Company; and
- To exercise other authorities conferred by the Articles and the Board.

The members of the senior management of the Company have extensive expertise and management experiences in their respective fields in charge of and formed a management team which works closely to ensure the day-to-day operation of the Company to be carried out efficiently. In addition, the Company has set up the Investment Review Committee, the Personnel Committee and the Budget Management Committee. Each of the resolution of the relevant committees are passed by way of a poll which fully guaranteed the scientific and precise operation and investment decisions made by the Company.

5 Securities Transactions by Directors and Supervisors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the model code for securities transactions by its Directors and Supervisors. After specific inquiries to the Directors and Supervisors of the Company, all Directors and Supervisors have confirmed that during the accounting period covered by this annual report, they have strictly complied with the requirements of the Model Code.

The Board will examine the corporate governance practices and operation of the Company from time to time so as to ensure compliance with the relevant provisions of the Listing Rules and to safeguard shareholders' interests.

6 Chairman and President

In accordance with A.2.1 of the Corporate Governance Code, the roles of Chairman and Chief Executive Officer should be separated and not be held by the same individual.

In order to ensure a proper balance of power and authority, the Chairman and the Chief Executive Officer have different duties. Mr. LI Hui and Mr. YANG Yexin act as the Chairman and the Chief Executive Officer of the Company respectively. Their responsibilities are well-defined as the Chairman is responsible for ensuring effective management of the Board, while the Chief Executive Officer is responsible for the day-to-day business operation of the Group.

7 Communications with Investors

The Board recognises the importance of good and effective communication with shareholders as a whole. In addition to publication of information, announcements and circulars, the Company also dedicates a section titled "Investors Relations" on its website www.chinabluechem.com.cn for shareholders to access relevant information.

Pursuant to the provisions and requirements of regulatory authorities, the Company is proactive in maintaining a good relationship with investors and making proper information disclosure. Further, the Company endeavours to maintain continuous communication with shareholders, in particular, by encouraging shareholders to attend annual general meetings or other general meetings.

The secretary office of the Board is responsible for the communication between the Company and the shareholders and other investors, including notifying shareholders of voting procedures regularly and ensuring that the voting procedures conform to the polling provisions of the Listing Rules and the Articles.

There has been no change to the Articles during the reporting period.

8 Internal Control

The Company is committed to establish and maintain a good internal control and risk management system which takes into account the practical circumstances of the Company and the requirements of the Corporate Governance Code.

In 2011, the Company further improved its intra-Group internal control system and internal control testing and evaluation mechanism, realized the welding of the management regimes between the Company and its subsidiaries and improved its level of internal control management. In order to actively safeguard against its development and operations risks, the Company convened risk analysis seminars based on its development strategy and actual operations management to fully discuss the major risks faced by the Company and carefully study the measures to combat such risks.

Through the Audit Committee's review of the internal control system of the Company, the Company conducts an annual comprehensive review of the effectiveness and results of the internal control system of the Company and its subsidiaries as well as associated companies, covering important controls over all aspects of financial, operational and compliance control and risk management functions. The Board has confirmed the effectiveness of the internal control system of the Group. The Company ensured that staff engaged in accounting and financial preparation and reporting functions have adequate qualifications and experience, and arranged adequate budget to ensure that they have received relevant training courses.

9 Auditor and Fees

Ernst & Young is the external auditor of the Company. The audit fees for 2011 was RMB3.90 million, which has been approved by the Audit Committee.

For the year ended 31 December 2011, there was no fee for non-audit service.

The responsibility statement of the Company's external auditor on the consolidated financial statements is set out on page 49 of this annual report.

10 2011 Annual Review on Non-Competition Agreement

On 7 September 2006, the Company and CNOOC entered into a non-competition agreement, pursuant to which CNOOC (a) agreed that it will not, and will procure its subsidiaries not to, directly or indirectly, engage in businesses that compete or are likely to compete with the Company's core businesses in China or abroad; and (b) granted the Company the first transaction right, first option and pre-emptive right to acquire any competing businesses.

On 28 March 2012, the Company and CNOOC held the 2011 annual review on non-competition.

At the meeting, there was a review of the investment opportunities obtained in 2011 by CNOOC and its subsidiaries (excluding the Group) which compete or are likely to compete with the Group's core businesses.

CNOOC and its subsidiaries (excluding the Group) have made an annual declaration confirming that they have fully complied with such undertakings. The independent non-executive Directors have also reviewed whether CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings and they are satisfied that CNOOC and its subsidiaries (excluding the Group) have fully complied with the undertakings.

11 Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for the Group's financial statements, and have assessed the Company's financial position, results, cash flow position and prospects during the period in a balanced, clear and comprehensive manner based on the timely and appropriate data provided by the management. The Board undertakes that, save as disclosed in this annual report, there is no major event or condition of uncertainty which may significantly affect the going-concern capability of the Company.

Directors, Supervisors and Senior Management

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Non-Executive Director

1 **LI Hui**, born in 1963. Mr. Li graduated from University of International Business and Economics with a bachelor's degree in 1987. He is a Senior Professor of International Business with a wide range of experience in international trade and international capital markets. From August 1987 to January 2000, Mr. Li served in a number of positions in China National Metals & Minerals Import & Export Corporation, including deputy general manager of its trade unit (五礦貿易有限公司) and president of its South American unit (南美五礦有限公司). From September 1998 to January 2000, Mr. Li served as deputy general manager of Beijing Economic-Technological Development Area. From January 2000 to July 2001, Mr. Li served in China National Chemicals Import & Export Corporation (which was renamed as Sinochem Group in October 2003, hereinafter referred to as "Sinochem") as assistant general manager and vice director of its oil group. Mr. Li was vice president of Sinochem, director of its oil group and general manager of Sinochem International Oil Company from July 2001 to August 2009. From September 2009 to May 2010, Mr. Li was vice president of Sinochem and general manager of Sinochem Petroleum Exploration and Production Co., Ltd.. Since May 2010, Mr. Li has been the vice president of China National Offshore Oil Corporation. Mr. Li was appointed as a non-executive Director of the Company in July 2011.

Executive Directors

2 **YANG Yexin**, born in 1956, is an executive Director and also the Chief Executive Officer and President of the Company. Mr. Yang graduated from Wuhan Communication Technology University in 1978 with a major in vessel engineering and obtained a master's degree in management engineering from China University of Petroleum (Beijing) in 2004. He joined the CNOOC Group in 1978 and served as a mechanical officer and the deputy head of the mechanics division of China Offshore Oil Southern Drilling Company. He was the deputy general manager of CNOOC Nanhai West CPEC (Shekou) Company from 1992, the chief officer of the equipment division of CNOOC Nanhai West Corporation from 1993, the deputy general manager of China Offshore Oil Southern Drilling Company from 1994 to 1999, the general manager of China Offshore Oil Southern Shipping Company from 1999 to 2001, the general manager of CNOOC Shipping Company Limited from 2001 to 2002, and a director and executive vice president of COSL from August 2002 to September 2003. Mr. Yang joined the Company in August 2003 when he was appointed as a director and the chairman of CNOOC Fudao Limited. He was appointed as a director in September 2003 and the general manager of the Company in October 2005, and was the chairman of Hainan Basuo from its incorporation to May 2010 and has been the chairman of CNOOC Jiantao since its incorporation. He is also the chairman of Hubei Dayukou Chemical Co., Ltd.. Mr. Yang was appointed as an executive Director of the Company in April 2006.

3 **FANG Yong,** born in 1960, is an executive Director and an Executive Vice President of the Company. Mr. Fang graduated from Shandong TV University in 1984 with a major in electronics. In 1998, Mr. Fang completed a graduate professional program in international trade at the Chinese Academy of Social Sciences. He undertook an EMBA program at Raj Soin College of Business of the Ohio State University in the USA from March 2005 to May 2006. He worked for Shandong Shengli Institute of Oilfield Geology from 1976 to 1984, and then joined Henan Zhongyuan Oilfield as the head of the contract management division under the ethylene management office. From 1992, he served as the head of foreign affairs, assistant to general manager and the manager of the sales office of CNOOC Fudao Limited before he was appointed as a deputy general manager of CNOOC Chemical in April 2001 and as a director and the president of CNOOC Fudao Limited in December 2001. He was appointed as a director of the Company in November 2003 and a deputy general manager in October 2005. Mr. Fang was appointed as an executive Director of the Company in April 2006.

4 **CHEN Kai,** born in 1957, is an executive Director and an executive vice president of the Company. Mr. Chen graduated from Zhongshan University in 1982 with a major in philosophy. He joined the CNOOC Group in 1982 and served as the deputy director of the cultural centre, the head of the promotions division, an office director, and the Party secretary of CNOOC Nanhai West Corporation as well as the Party secretary of CNOOC Shipping Limited. From August 2002 to October 2005, he was a vice president of COSL. He served as the general manager of Tianye Chemical from July 2004 to January 2009 and its chairman since February 2006. Mr. Chen has been a deputy general manager of the Company since October 2005. Mr. Chen was appointed as an executive Director of the Company in April 2006.

Independent Non-Executive Directors

5 **ZHANG Xinzhi,** born in 1944, is an independent non-executive Director of the Company. He has more than 35 years of experience in engineering and management in the petrochemical industry and is a senior engineer at professor level. Mr. Zhang obtained a bachelor's degree from the University of Science and Technology of China in 1967. From 1967 to 1989, he was with No. 3 Fushun Petroleum Factory and served as a technical officer, an engineer and a deputy plant manager. He was a deputy general engineer of Fushun Petroleum Chemical Corporation in 1990, a deputy manager in 1992 and a manager of Fushun Petroleum and Chemical Corporation of Sinopec Corporation in 1995. Mr. Zhang joined PetroChina Corporation in 1999, and served as a director of the refinery and chemical department, the general manager of the chemical and sales branch, a vice president, and a deputy director of the consulting centre. In 2003, he was appointed as honorary director of the sixth session of the China Petroleum Society. From 2003 to 2004, he was engaged as an instructor for part-time doctoral students by the Dalian Institute of Chemistry and Physics, the Institute of Chemistry and the Lanzhou Institute of Chemistry and Physics with the Chinese Academy of Science. In 2009 he was engaged as an instructor for part-time doctoral students by the Qingdao Institute of Bioenergy and Bioprocess Technology with the Chinese Academy of Sciences. Mr. Zhang was appointed as an independent non-executive director in April 2006.

6 **TSUI Yiu Wa, Alec,** born in 1949, is an independent non-executive Director of the Company. He has more than 30 years of experience in the securities market and financial management. Mr. Tsui graduated from the University of Tennessee in the USA with a bachelor of science degree and a master of engineering degree in industrial engineering. He completed the program for senior managers in government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui served at various international companies, including Arthur Andersen & Co and Swire Bottlers Limited, and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was the general manager (finance, technology & human resources), an assistant director (licensing) and the general manager (human resources) of the Securities and Futures Commission from 1989 to 1993. Mr. Tsui joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became the chief executive in 1997. From 2001 to 2004, he was chairman of Hong Kong Securities Institute. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. At present, he serves as an independent non-executive director in a number of Hong Kong main board listed companies, namely, China Chengtong Development Group Ltd. (from March 2003), COSCO International Holdings Ltd. (from February 2004), China Power International Development Ltd. (from March 2004), Pacific Online Limited, (from November 2007), China Oilfield Services Limited (from June 2009) and Summit Ascent Holdings Limited (formerly known as Arnhold Holdings Limited) (from March 2011) as well as an independent non-executive director in companies listed on NASDAQ, including Melco PBL Limited (from December 2006) and ATA Inc. (from January 2008). He was appointed as an independent non-executive Director of the Company in April 2006.

7 **GU Zongqin,** born in 1955, is an independent non-executive Director of the Company. Mr. Gu graduated from Nanjing Chemical Engineering Institute in February 1982 with a major in Inorganic Chemical Engineering. He worked in the Chemical Fertilizer Division of the Planning Institute of Ministry of Chemical Industry from February 1982 to June 1991 and served as the deputy director of the Division between July 1991 and June 1993. Between July 1993 and October 1994, Mr. Gu was an assistant to the president of the Planning Institute of Ministry of Chemical Industry and from November 1994 to January 2000, he served as the vice president of the Planning Institute of Ministry of Chemical Industry. He has been the president and Party Secretary of the China National Petroleum and Chemical Planning Institute since February 2000 and also served as the deputy president of China Petroleum and Chemical Industry Association since April 2006. Mr. Gu has been an independent director of Hubei Xingfa Chemicals Group Co., Ltd. (a company listed on Shanghai Stock Exchange) since April 2006, Shaanxi Xinghua Chemical Co., Ltd. (a company listed on Shenzhen Stock Exchange) since May 2007 and Guizhou Chitianhua Co. Ltd. (a company listed on Shanghai Stock Exchange) since April 2008. He was appointed as an independent non-executive Director of the Company in June 2010.

Supervisors

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Supervisors

8 **QIU Kewen,** born in 1955, is the chairman of the Supervisory Committee of the Company. Mr. Qiu graduated from Sun Yat-sen University in 1982 with a major in Mathematics and Mechanics of Automatic Control. He enrolled in Management Science and Engineering at China University of Petroleum (Beijing) between September 1997 and July 1999 and obtained a master's degree in Management. From March 1976 to March 1978, Mr. Qiu served as the port supervisor of Guangzhou Maritime Bureau; from January 1982 to June 1985, he was appointed as a lecturer of Sun Yat-sen University; from June 1985 to December 1999, he served as an assistant engineer of the Research Center, deputy manager of the Software Department of the Computing Center, assistant to the director of the Computing Center, deputy director of the Computing Center, director of the Computing Center and deputy director of the Technology Research Center of CNOOC Nanhai East Corporation; from January 2000 to April 2004, he served as the vice president and secretary of party branch of CNOOC Research Center, Nan Hai East Institute; from May 2004 to July 2009, he served as the deputy party secretary, secretary of Discipline Inspection Committee and chairman of the Labour Union of CNOOC Nanhai East Corporation; from June 2004 to May 2006, he was also appointed as the chairman of the Supervisory Committee of CNOOC Huizhou Petrochemicals Service Co., Ltd.; from July to November 2009, he served as the secretary of Discipline Inspection Committee and chairman of the Labour Union of Petroleum Administration of CNOOC Nanhai East Corporation. He has been chairman of the Supervisory Committee of China National Offshore Oil Corporation since November 2009 and chairman of the Supervisory Committee of China Ocean Offshore Oilfields Service (Hong Kong) Limited and CNOOC New Energy Investment Co., Ltd. since December 2009. He was appointed as a Supervisor of the Company in June 2010.

9 **HUANG Jinggui,** born in 1963, is an independent Supervisor of the Company. He is a specialist of the State Council's special allowance. Mr. Huang is a university professor and has more than 20 years' experience in teaching. He graduated from Wuhan University with a bachelor's degree in economics in 1986, and pursued postgraduate studies at the School of Economics in Peking University. He obtained a doctorate degree in economics from the University of Moscow in 1994. He previously was the dean of the School of Economics and Management of Hainan University and the head of the university's Master of Business Administration Education Centre. He is the dean of Hainan College of Economics and Business, a vice president of the Hainan Federation of Industrial Economics, a vice president of Hainan Consumers Association, a vice president of Hainan Economics Society and an executive director of China Global Economy Society. Mr. Huang is also a part-time professor at the Russian State University of Management, China Centre for Special Economic Zone Research at Shenzhen University, Institute of Economic Development at Wuhan University as well as Liaoning University. He was appointed as an independent Supervisor of the Company in April 2006.

10 **ZHANG Ping**, born in 1973, graduated from Central University of Finance and Economics in 1997 with a major in Management of Investment Economics and obtained a bachelor's degree in Economics. He obtained a master's degree in Finance from University of International Business and Economics in 2003. He is an International Certified Internal Auditor (CIA) and a Certified Information System Auditor (CISA), and holds a mid-level technical position of auditor. He started his career in August 1997. From August 1997 to March 1999, he worked at Finance Department, State Administration for Religious Affairs of PRC. From March 1999 to August 1999, he worked at National Audit Office of the People's Republic of China (secondment). From August 1999 to November 2000, he worked for Foreign Economic Cooperation Department of China Textile Machinery (Group) Co. Ltd., and later served as the head of finance at CNOOC Investment Co., Ltd. from November 2000 to May 2003. From May 2003 to January 2008, he was the head responsible for auditing investment projects at the Audit and Supervising Department of CNOOC. Since February 2008, he has served as general manager of Audit and

Senior Management

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Supervising Department of the Company. Mr. Zhang was also the Chairman of the Supervisory Committee of Guizhou Jinlin Chemical Co., Ltd. He was appointed Supervisor of the Company in April 2009 and supervisor of Shanxi Hualu Coal Chemical Ltd., in August 2009..

Senior Management

11 **ZHOU Fan,** born in 1962, with a master's degree, is an executive vice president of the Company. She graduated from Guangdong Marine University with a bachelor degree of science in Marine Diesel in August 1983; and the China University of Petroleum at Beijing with a master degree in Management in December 2005. In August 1983, she joined CNOOC Nanhai West Corporation and served as an officer of personnel department, a deputy head of the organisation department and a deputy secretary and secretary of the education department of the Communist Youth League. From May 1989 to May 1998, she served as deputy secretary and secretary of Communist Youth League of CNOOC Nanhai West Corporation; from May 1999 to September 2002 as a deputy secretary and secretary of the disciplinary committee of the Party and chairman of labour union of Zhanjiang Branch of CNOOC; from September 2002 to November 2004 as deputy Party secretary and Party secretary of CNOOC Nanhai West Corporation; and from November 2004 to August 2007, she was a deputy general manager of CNOOC Base Group Ltd. and Party secretary and secretary to disciplinary committee of CNOOC Nanhai West Corporation. She was appointed as an executive vice president of the Company in August 2007.

12 **QUAN Changsheng,** born in 1966, is the chief financial officer, vice president and the board secretary of the Company. Mr. Quan graduated from East China Petroleum Institute (later renamed as "Petroleum University") in 1986 with a major in business management, and joined the CNOOC Group thereafter. He served as accountant, senior accountant and budgetary reporting supervisor to various divisions of CNOOC Nanhai East Corporation, a manager of the finance department of the CNOOC QHD32-6 Operating Company from 1999 to 2002, and a manager of the finance department of the Tianjin branch of CNOOC Limited from 2002 to 2006. Mr. Quan joined the Company in March 2006 and was appointed as the chief financial officer and vice president in May 2006. In July 2007, he was also appointed as Board secretary and company secretary. Mr. Quan was also the director of DYK Chemical and CNOOC Tianye. He has been appointed the chairman of Shanxi Hualu Coal Chemical Ltd. since August 2009.

13 **LIANG Mingchu,** born in 1951, is a vice president of the Company. Mr. Liang graduated from Hunan Chemical Technology School with a major in inorganic chemistry in 1975. He then joined the Sinopec Group's Dongting Nitrogenous Fertiliser Factory (which was subsequently renamed Sinopec (Baling) Corporation) and served as a deputy head of its No. 1 factory, a deputy head of the production office, the head of the engineering management office, and a deputy general engineer. Mr. Liang joined the Company in July 2000. He was an assistant to general manager of the Company and assistant to president of CNOOC Fudao Limited from 2001 to October 2005, and then he was appointed as a deputy general manager of the Company.

14 **MIAO Qian,** born in 1963, is a vice president of the Company. Mr. Miao graduated from Fuzhou University with a major in Civil Construction in 1983. He then joined the CNOOC Group and served as a deputy head of the engineering management division of CNOOC Nanhai West Corporation, the head of the engineering management division of CNOOC Nanhai West Real Estate Company and a manager of CNOOC Nanhai West Jianyuan Company. He joined the Company in May 2002 and served in the methanol project department as an assistant to the general manager of the Company. In October 2005, he was appointed as a deputy general manager of the Company. In September 2010, he was appointed as the chairman of Hegang Huahe Coal Chemical Ltd.

Report of Directors

The Directors are pleased to present the audited financial statements for the year ended 31 December 2011 of the Company and the Group.

Principal Activities

The Company and its subsidiaries (the "Group") and associates are principally engaged in the manufacture and sale of fertilisers (mainly urea and phosphate fertilisers) and chemical products (mainly methanol) during the prior years.

During the reporting period, the POM plant of the Company with an annual production capacity of 60,000 tonnes went into commercial operation with an increase in production capacity of 60,000 tonnes of POM.

Results

Profit of the Group for the year ended 31 December 2011 and the financial position of the Company and the Group as at that date are set out on pages 50 to 58 of the financial statements.

Dividends

The Board recommended the payment of a final dividend of RMB0.16 per share for 2011, aggregating RMB737.6 million. The proposed final dividend for 2011 is subject to shareholders' approval at the forthcoming annual general meeting (the "AGM").

Dividends to holders of domestic shares are payable in Renminbi whereas dividends to holders of H shares are payable in Hong Kong Dollars. The value of Hong Kong Dollar shall be calculated on the basis of the mid-price of the average official exchange rate of Renminbi and Hong Kong Dollar, as quoted on the website of the People's Bank of China (the "PBOC"), for the 7 business days before the date of declaration of the dividends.

Subsidiaries

Particulars of the subsidiaries of the Company as at 31 December 2011 are set out in Note 21 to the financial statements.

Summary of Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 1. This summary does not form an integral part of the audited financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in Note 16 to the financial statements.

Share Capital

As at 31 December 2011, the total share capital of the Company was RMB4,610,000,000 divided into 4,610,000,000 ordinary shares with a nominal value of RMB1 per share, of which 2,813,999,878 shares were domestic shares, 25,000,122 shares were unlisted foreign Shares, and the remaining 1,771,000,000 shares were H shares, accounting for approximately 61.04%, 0.54% and 38.42% respectively of the total issued share capital.

Details of the share capital structure of the Company as at 31 December 2011 are set out in Note 32 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of the Company and the PRC laws which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2011.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Distributable Reserves

As at 31 December 2011, the reserves available for distribution of the Company was RMB4,667.6 million.

Charitable Donations

During the year, the Group made charitable donations of RMB16.6 million in total.

Major Customers and Suppliers

During the reporting period, sales to the Group's five largest customers accounted for 20% of the total sales for the year and sales to the largest customer included therein amounted to 6%. Purchases from the Group's five largest suppliers accounted for 51% of the total purchases for the year and purchases from the largest supplier accounted for 31% of the total purchases for the year.

The Group purchased raw materials from certain companies under the common control of the same ultimate holding company as the Company, details of which are set out in "Connected Transactions" below. Save as aforesaid, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest customers and five largest suppliers.

Directors and Supervisors

The Directors and Supervisors of the Company as at 31 December 2011 were:

Executive Directors:	
YANG Yexin	Re-appointed on 12 June 2009
FANG Yong	Re-appointed on 12 June 2009
CHEN Kai	Re-appointed on 12 June 2009
Non-executive Director:	
LI Hui	Appointed on 28 July 2011
Independent Non-executive Directors:	
ZHANG Xinzhi	Re-appointed on 12 June 2009
TSUI Yiu Wa, Alec	Re-appointed on 12 June 2009
GU Zongqin	Appointed on 4 June 2010
Supervisors:	
QIU Kewen	Appointed on 4 June 2010
HUANG Jinggui	Re-appointed on 12 June 2009
ZHANG Ping	Appointed on 17 April 2009

Note: Mr. WU Mengfei resigned as the Chairman and Non-executive Director of the Company on 29 July 2011. Please refer to the announcement dated 29 July 2011 of the Company for details.

Pursuant to the Articles of the Company, all Directors and Supervisors are elected for a term of three years and may serve consecutive terms upon re-election. However, if the Directors and Supervisors are not re-elected prior to the expiry of their term of office, the existing Directors and Supervisors shall discharge their duties and responsibilities until new Directors and Supervisors of the Company are elected at a general meeting of the Company to be held in the year in which the term of office expires in accordance with the provisions of laws, regulations and the Articles promptly, save that the Supervisor representing the Company's employees shall be elected by the Company's employee representatives.

The Company has received the annual confirmations of their independence from each Independent Non-executive Director as at the date of this annual report and considered them to be independent.

Biographies of Directors, Supervisors and Senior Management

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 30 to 33 of this annual report.

Service Contracts of Directors and Supervisors

At the AGM of the Company held on 12 June 2009, a new session of Directors and Supervisors (save for the Supervisor representing the Company's employees) has been elected. Each of the Directors and Supervisors entered into a service contract with the Company for a term of office of three years from 12 June 2009 until new Directors and Supervisors (save for the Supervisor representing the Company's employees) are elected at a general meeting of the Company to be held in the year in which the term of office expires, and may serve consecutive terms upon re-election. The term of office of Mr. GU Zongqin and Mr. QIU Kewen, who were appointed as Independent Non-executive Director and Supervisor respectively on 4 June 2010, commenced on 4 June 2010, and the term of office of Mr. LI Hui, who was appointed as Non-executive Director on 28 July 2011, commenced on 28 July 2011, all until new Directors or Supervisors are approved by shareholders at the 2011 Annual General Meeting of the Company in which the term expires, and may serve consecutive terms upon re-election.

No Director or Supervisor has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Remunerations of Directors and Supervisors

Details of the remunerations of Directors and Supervisors are set out in Note 9 to the financial statements.

Remuneration Policy

The remunerations of the Directors are reviewed from time to time by the Remuneration Committee with reference to their professional qualifications, responsibilities, experience, performance and the Group's operating results.

Interests of Directors and Supervisors in Contracts

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any material contract in relation to the business of the Group to which the Company, its holding Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting at the end of 2011 or subsisted at any time during the year.

H-Share Appreciation Rights Scheme

Pursuant to the announcement dated 9 January 2008 of the Company and the circular to shareholders dated 11 January 2008, the H-Share Appreciation Rights Scheme (the "Scheme") was approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") on 3 December 2007, and considered and passed by the extraordinary general meeting of the Company ("EGM") held on 25 February 2008, which came into effect on 25 February 2008. According to the Scheme, share appreciation rights will be granted to the Directors (excluding Independent Non-executive Directors) and senior management of the Company.

The purpose of the Scheme is to provide long-term incentives to the senior management of the Company and to promote the success of the business of the Group. The term of the Scheme will be six years (commencing upon shareholders' approval of the Scheme, i.e. 25 February 2008). Under the Scheme, the share appreciation rights are not transferable, nor are there any voting rights attached. The operation of the Scheme does not involve any issue of new shares of the Company, and the exercise of any share appreciation rights will not create any dilution effect on the Company's equity structure. Upon exercise of the share appreciation rights, a grantee will only be entitled to receive cash payments for the appreciation. The Scheme is not a scheme involving the grant of options over new securities of the Company.

Under the Scheme, where the grantees do not exercise their share appreciation rights in the two years following the shareholders' approval of the Scheme, they are not allowed to exercise their share appreciation rights by more than 25% each year in the following four years. In each of the four years where grantees may exercise their rights, he or she is entitled to exercise the same only once during the relevant exercise period. In other words, the 25% cap is an annual cap during the relevant years to the extent that the share appreciation rights may be exercised under the Scheme. Any share appreciation rights not exercised by the end of the sixth year of the exercise period will lapse. Cash payments as a result of the exercise of the share appreciation rights shall be deposited into a personal account of the relevant grantee. In any event the total annual payment under the Scheme pursuant to each exercise of the share appreciation rights shall not be more than 50% of the total annual remuneration of the relevant grantee as at the time of the grant of those rights.

Under the Scheme, exercise price is based on the average closing price for the Company's H Shares on the Stock Exchange for the period commencing 30 days after announcement of the Company's results for the financial year prior to the immediate preceding financial year, until the end of the immediate preceding financial year of the Company.

Pursuant to the Scheme, the Scheme is subject to the fulfilment of certain conditions precedent relating to the performance of the Company and the grantees, including, among others: (i) the audited average return on equity of the Company is not less than 14% for the financial years of 2007 and 2008; (ii) the average year-on-year increase in audited net profit of the Company being not less than 10% for the financial years of 2007 and 2008; and (iii) the satisfactory appraisal of the performance of each grantee.

The Board has completed the above assessments under the Scheme and is of the view that:

(1) the audited average return on equity and the average year-on-year increase in audited net profit of the Company for the financial years 2007 and 2008 have met the specified requirements; and

(2) the performance of each grantee for the financial years 2007 and 2008 was satisfactory.

In accordance with the Management Rules and Procedures of the H-Share Appreciation Rights Scheme, the above assessment results have been approved by the Extraordinary General Meeting held on 7 February 2010. Any exercise of the rights granted under the Scheme is also subject to the Company's audited return on equity for the financial year immediately prior to the proposed exercise being not lower than the average or median of the return on equity for the same industry.

As at 31 December 2011, the following Directors and senior management were granted the following share appreciation rights:

Names of directors and senior management	Capacity	Number of share appreciation rights granted (shares)	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares of the Company (%)
YANG Yexin	Executive Director, Chief Executive Officer and President	891,000	0.05	0.02
FANG Yong	Executive Director and Executive Vice President	681,000	0.04	0.01
CHEN Kai	Executive Director and Executive Vice President	681,000	0.04	0.01
ZHOU Fan	Executive Vice President	454,000	0.03	0.01
QUAN Changsheng	Chief Financial Officer, Vice President and Board Secretary	616,000	0.03	0.01
LIANG Mingchu	Vice President	616,000	0.03	0.01
MIAO Qian	Vice President	616,000	0.03	0.01
WU Mengfei		1,053,000	0.06	0.02

Note:

(1) Mr. Hong Junlian resigned as Vice President of the Company in August 2009 and the share appreciation rights for 616,000 shares granted to him lapsed and ceased to have any right of exercise.

(2) Mr. WU Mengfei was elected as the Chairman and Non-executive Director of the Company on 25 April 2006 and was re-elected on 12 June 2009. He resigned as the Chairman and a Non-executive Director of the Company on 29 July 2011.

Interests and Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered into the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, are set out below:

Names of directors	Capacity	Number of share appreciation rights granted (shares)	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares of the Company (%)
YANG Yexin	Beneficial owner	891,000(L)(Note 1)	H Shares	0.05(L)	0.02(L)
FANG Yong	Beneficial owner	681,000(L)(Note 2)	H Shares	0.04(L)	0.01(L)
CHEN Kai	Beneficial owner	681,000(L)(Note 3)	H Shares	0.04(L)	0.01(L)
WU Mengfei (Note 4)	Beneficial owner	1,053,000(L)(Note 4)	H Shares	0.06(L)	0.02(L)

Notes: The letter (L) denotes long position.

(1) These shares represent interests in share appreciation rights of the Company, of which 222,750 share appreciation rights are exercisable in each of the following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(2) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of the following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(3) These shares represent interests in share appreciation rights of the Company, of which 170,250 share appreciation rights are exercisable in each of the following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

(4) Mr. WU Mengfei resigned his office as the Chairman and Non-executive Director of the Company on 29 July 2011.
These shares represent interests in share appreciation rights of the Company, of which 263,250 share appreciation rights are exercisable in each of the following four periods: (i) 25 February 2010 to 30 June 2010; (ii) 1 January 2011 to 30 June 2011; (iii) 1 January 2012 to 30 June 2012; and (iv) 1 January 2013 to 25 February 2013.

Save as disclosed above, to the best knowledge of any Director, as at 31 December 2011, none of the Directors, Supervisors or chief executives of the Company had any interests which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered into the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of Substantial Shareholders

As at 31 December 2011, pursuant to the register of substantial shareholders required to be kept under Section 336 of the SFO, the interests and short positions in any shares and underlying shares of the Company of the following shareholders (excluding Directors, Supervisors and chief executives of the Company or their respective associates) are set out as below:

Names of substantial shareholders	Capacity	Number of Shares held (shares)	Class of Shares	Approximate percentage of the relevant class of shares in issue (%)	Approximate percentage of total issued shares (%)
CNOOC (Note 1)	Beneficial owner; security interests in shares held through a controlled corporation	2,813,999,878 (L) (Note 2)	Domestic Shares	100(L)	61.04(L)
JPMorgan Chase & Co.	Beneficial owner; investment manager; custodian / approved lending agent	223,483,359(L) 0(S) 128,801,359(P) (Note 3)	H Shares	12.62(L) 0.00(S) 7.27(P)	4.85(L) 0.00(S) 2.79(P)
Hang Seng Bank Trustee International Limited	Trustee (other than a bare trustee)	176,976,000(L) (Note 4)	H Shares	9.99(L)	3.84(L)
Commonwealth Bank of Australia	Interests in controlled corporation	157,858,000(L) (Note 5)	H Shares	8.91(L)	3.42(L)
BlackRock, Inc.	Interests in controlled corporations	92,452,562(L) 3,434,362(S) (Note 6)	H Shares	5.22(L) 0.19(S)	2.01(L) 0.07(S)
Mondrian Investment Partners Limited	Investment manager	89,810,000(L)	H Shares	5.07(L)	1.95(L)

Notes: The letter (L) denotes long position, the letter (S) denotes short position, and the letter (P) denotes lending pool.

(1) Mr. LI Hui, the Chairman and Non-executive Director of the Company, is also the deputy general manager of CNOOC.

(2) Out of the 2,813,999,878 domestic shares, 2,738,999,512 shares are held as beneficial owner and 75,000,366 shares are held as having security interests in shares through a controlled corporation, CNOOC Finance Corporation Limited.

(3) These shares are held directly by a number of controlled corporations of JPMorgan Chase & Co., which are JPMorgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., JF Asset Management Limited, JF International Management Inc., J.P. Morgan Investment Management Inc. and JPMorgan Asset Management (UK) Limited.

(4) These shares are held by Hang Seng Bank Trustee International Limited, which are also deemed to be interested by each of Value Partners Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Mr. Cheah Cheng Hye and Ms. To Hau Yin.

(5) These shares are held directly by a number of controlled corporations of Commonwealth Bank of Australia, which are First State Investments (Hong Kong) Ltd, First State Investment Management (UK) Limited and First State Investments (Singapore).

(6) These shares are held directly by a number of controlled corporations of BlackRock, Inc., which are BlackRock Investment Management, LLC., BlackRock Financial Management, Inc., BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Advisors, LLC., BlackRock International Holdings Inc., BlackRock Asset Management Canada Limited, BlackRock Asset Management Japan Limited,

BlackRock Investment Management (Australia) Limited, BlackRock Asset Management Australia Limited, BlackRock Asset Management North Asia Limited, Blackrock Advisors UK Ltd., BlackRock (Netherlands) B.V., BlackRock Investment Management (LUX), BlackRock Asset Management Ireland Ltd, BlackRock Investment Management (UK) Ltd, BlackRock Fund Managers Ltd and BlackRock International Ltd..

Save as disclosed above, as at 31 December 2011, the Company had not been notified by any person (other than a Director, Supervisor and chief executive of the Company or their respective associates) of any interests and short positions in the shares and underlying shares (as the case may be) of the Company which were required to be entered into the register kept pursuant to Section 336 of the SFO.

Management Contract

No contracts in respect of the management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Connected Transactions

Continuing Connected Transactions

Details of the continuing connected transactions of the Group approved by the independent shareholders in 2011 were as follows:

Connected Persons

1 **CNOOC and its Associates**

CNOOC is the controlling shareholder of the Company and, therefore, CNOOC and its associates (other than the Group) are connected persons to the Company pursuant to Rule 14A.11 of the Listing Rules.

CNOOC Investment Co., Ltd. ("CNOOC Investment") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules, and also a connected person to the Company pursuant to Rule 14A.11(4) of the Listing Rules.

China Oilfield Services Limited ("COSL") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules, and also a connected person to the Company pursuant to Rule 14A.11(4) of the Listing Rules.

CNOOC Limited is a subsidiary of CNOOC and CNOOC China Limited ("CNOOC China") is a wholly-owned subsidiary of CNOOC Limited. Both CNOOC Limited and CNOOC China are associates of CNOOC pursuant to Rule 19A.04 of the Listing Rules and, therefore, connected persons to the Company pursuant to Rule 14A.11(4) of the Listing Rules.

CNOOC Finance Corporation Limited ("CNOOC Finance") is a subsidiary of CNOOC and, therefore, an associate of CNOOC pursuant to Rule 19A.04 of the Listing Rules, and also a connected person to the Company pursuant to Rule 14A.11(4) of the Listing Rules.

2 **Hong Kong Kingboard and its Associates**

The Company holds 60% of the equity interests in CNOOC Kingboard Chemical Limited ("CNOOC Jiantao") while Kingboard Investment Limited ("Hong Kong Kingboard"), a subsidiary of the Kingboard Chemical Group, holds the remaining 40% equity interests. CNOOC Jiantao was previously a jointly-controlled entity of the Company. From 29 April 2008, the Company gained control of CNOOC Jiantao, which became a subsidiary of the Company, with Hong Kong Kingboard as its substantial shareholder. Pursuant to Rules 1.01 and 14A.11(1) of the Listing Rules, Hong Kong Kingboard and its associates (including the parent company of Hong Kong Kingboard, i.e., the Kingboard Chemical Group) are also connected persons to the Company.

3 **Zhejiang AMP and its Associates**

On 11 July 2010, CNOOC Fudao Limited ("CNOOC Fudao"), a wholly-owned subsidiary of the Company, entered into a purchase agreement with Zheijiang AMP Incorporatin ("Zhejiang AMP"), under which CNOOC Fudao agreed to purchase and Zheijiang AMP agreed to sell the 21% equity interests in Guangxi Fudao Agricultural Means of Production Limited ("Guangxi Fudao AMP"). Upon completion of the acquisition, the equity interests of Guangxi Fudao AMP is held as to 51% by CNOOC Fudao and as to 49% by Zheijiang AMP, which became a substantial shareholder of Guangxi Fudao AMP. Accordingly, Zheijiang AMP is a connected person to the Company pursuant to Rules 1.01 and 14A.11(1) of the Listing Rules.

Continuing Connected Transactions

Details of certain continuing connected transactions among the Company and CNOOC and its associates and Hong Kong Kingboard and its associates are set out below:

1 Properties Leasing Agreement

In 2011, the Group continued to lease properties from CNOOC Group under the terms and conditions of the Properties Leasing Agreement dated 1 September 2006. Accordingly, the Company entered into a supplemental agreement to the Properties Leasing Agreement on 5 November 2008, pursuant to which the term of Properties Leasing Agreement commenced on 1 January 2009 and expired on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

In view of the needs for business expansion, the Company accepted the provision of property leasing services of Kaikang CNOOC Mansion in Beijing from members of CNOOC Group since 1 May 2010.

In addition, on 22 September 2008, CNOOC Investment Co., Ltd. ("CNOOC Investment") and ZHJ Mining Co., Ltd. ("ZHJ Mining"), a subsidiary of the Company, entered into a land use rights lease agreement (the "Land Use Rights Lease Agreement"), pursuant to which CNOOC Investment has agreed to lease the rights to use certain parcels of land in Hubei Province, the PRC to ZHJ Mining for general business and staff quarters uses. The rent under the Land Use Rights Lease Agreement is RMB3,000,000 per annum. The term of the Land Use Rights Lease Agreement commenced on the date of the Agreement and expired on 31 December 2010. Pursuant to the internal reorganisation of the organisational structure of the Group, ZHJ Mining was deregistered and its rights and obligations were succeeded by DYK Chemical, a subsidiary of the Company. Subsequent to the expiry of the Land Use Rights Lease Agreement on 31 December 2010, DYK Chemical and CNOOC Investment entered into a new land use rights lease agreement (the "New Land Use Rights Lease Agreement"), on the same basis as the Land Use Rights Lease Agreement, on 31 December 2010 pursuant to which the term of the lease commenced on 1 January 2011 and will expire on 31 December 2013 with the other terms of the Land Use Rights Lease Agreement remaining unchanged. The annual rent under the new Land Use Rights Lease Agreement is RMB3,000,000.

In accordance with the circular to shareholders dated 31 December 2008 of the Company, the annual amount under the Land Use Rights Lease Agreement has been aggregated with those of the annual amount under the Properties Leasing Agreement (see item A(1) below).

The rent in respect of such properties for 2011 was RMB26,504,000.

2 COSL Transportation Agreement

In 2011, the Group continued to use the transportation services of COSL under the terms and conditions of the transportation services framework agreement (the "COSL Transportation Agreement" dated 1 September 2006 entered into by the Company and, therefore, the Company entered into a supplemental agreement to the COSL Transportation Agreement on 5 November 2008 which was passed and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008, pursuant to which the term of the COSL Transportation Agreement commenced on 1 January 2009 and expired on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the COSL Transportation Agreement are being conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the government-prescribed price of the PRC government;

(ii) where there is no government-prescribed price but there is a governmente-guidance price, a price not higher than the government-guidance price of the PRC government;

(iii) where there is neither a government-prescribed price nor a government-guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on cost plus 10%.

Currently, the transportation services covered by the COSL Transportation Agreement are not subject to any PRC government-prescribed or government-guidance price, but we consider it prudent to incorporate pricing principles (i) and (ii) into the above Agreement.

The actual aggregate expenses for the transportation services in 2011 amounted to RMB116,193,000.

3 **Natural Gas Purchase and Sale Agreements**

In 2011, the Group continued to purchase natural gas under the three long-term agreements entered into with CNOOC China, a wholly-owned subsidiary of CNOOC (the three long-term agreements are collectively referred to as the "Natural Gas Purchase and Sale Agreements"):

(i) the Dongfang 1-1 Offshore Gasfields Natural Gas Purchase and Sale Agreement entered into between CNOOC China and the Company on 28 July 2003, under which CNOOC China has committed to supply natural gas to the Company for Fudao Phase II at prices that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement commenced on 1 October 2003 and will expire on 30 September 2023;

(ii) the Dongfang 1-1 Offshore Gasfields Natural Gas Purchase and Sale Agreement entered into between CNOOC China and CNOOC Jiantao on 10 March 2005, under which CNOOC China has committed to supply natural gas to CNOOC Jiantao for CNOOC Jiantao Methanol Plant at prices that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement is 20 years commencing on 15 October 2006 provided that the earliest time CNOOC China may provide natural gas to CNOOC Jiantao Methanol Plant is 9 May 2006;

(iii) the Natural Gas Purchase and Sale Framework Agreement entered into between the Company and CNOOC China on 1 September 2006 which does not include the transactions conducted under the two agreements mentioned above. The framework agreement was intended to cover purchases of natural gas from CNOOC China for the Group's future plants. Pursuant to this Framework Agreement, CNOOC China will sell natural gas to the Group at a price which is determined on a fair and reasonable basis (including by reference to the prices of four major types of crude oil in the international markets) and in accordance with normal commercial practices. The term of this Agreement is 20 years commencing on the date of the agreement.

CNOOC China and the Company entered into the "Ledong Natural Gasfields Natural Gas Sale and Purchase Agreement" on 26 March 2010, pursuant to which CNOOC China has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at benchmark prices of natural gas that are subject to adjustments on a quarterly basis by reference to the prices of four major types of crude oil in the international markets during the preceding quarter. The term of this agreement commenced on 26 March 2010 and will expire on the closing date of the delivery period as agreed in the agreement. The target delivery period is 15 years commencing on 1 January 2011 and will expire on 31 December 2025, or such substitute period as determined in accordance with the terms of the Agreement.

The four types of crude oil referred to in the Natural Gas Purchase and Sale Agreements are: West Texas Intermediate Crude Oil (西德薩斯中質原油), Tapis Crude Oil (塔皮斯原油), Mixed Brent Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油), the reference prices of which are provided by Platts Crude Oil Marketwire.

The aggregate expenses of the Company on purchases of natural gas from CNOOC China in 2011 amounted to RMB1,918,426,000.

4 **Comprehensive Services and Product Sales Agreement**

In 2011, the Group continued to enter into transactions with CNOOC Group under the terms and conditions of the Comprehensive Services and Product Sales Agreement. Therefore, the Company entered into a supplemental agreement to the Comprehensive Services and Product Sales Agreement on 5 November 2008, which was passed and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008. Pursuant to the supplemental agreement, the term of the Comprehensive Services and Product Sales Agreement commenced on 1 January 2009 and expired on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with, pursuant to which:

(a) certain companies of CNOOC Group may provide services and supplies that the Group may require for the Group's business operation and production (such as telecommunications and computer network services, enterprise resources planning and office automation services, construction of production facilities and related construction project management and supervision, machinery and vehicle rental and maintenance, production equipment rental and repairs, transportation services, community services including catering, hospital and schooling, and training);

(b) the Group may provide to certain companies of CNOOC Group services and supplies (such as machinery and vehicle rental, transportation services, business management services, catering and accommodation); and

(c) the Group may sell to certain companies of CNOOC Group products produced by the Group (such as urea and methanol).

The transactions under the Comprehensive Services and Product Sales Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the government-prescribed price of the PRC government;

(ii) where there is no government-prescribed price but there is a government-guidance price, a price not higher than the government-guidance price of the PRC government;

(iii) where there is neither a government-prescribed price nor a government-guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on cost plus 10%.

Currently, all services and supplies covered by the Comprehensive Services and Product Sales Agreement are not subject to any PRC government-prescribed or government-guidance prices. However, the Company considers it prudent to incorporate pricing principles (i) and (ii) into the Comprehensive Services and Product Sales Agreement.

In addition, DYK Chemical, a subsidiary of the Company, has been selling products such as DAP to CNOOC Group and starting from January 2009, products such as MAP were sold to CNOOC Group. Such transactions are subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented).

Further, the annual revenue generated from such sales will be aggregated with the annual revenue generated from other sales of products under the Comprehensive Services and Product Sales Agreement (as supplemented). The annual caps of the new continuing connected transactions aggregated with the annual amounts under Comprehensive Services and Product Sales Agreement (as supplemented) have been considered and passed by the independent shareholders at the Extraordinary General Meeting held on 16 February 2009 (see item A(4)(c) below).

DYK Chemical has been purchasing products such as sulphur from CNOOC Group for its business operation. Such transactions are subject to the terms and conditions of the Comprehensive Services and Product Sales Agreement (as supplemented) (see item A(4)(d) below).

Annual expenses in 2011 of the Company on services and supplies from certain companies of CNOOC Group amounted to RMB109,566,000. Annual revenue in 2011 from services and supplies provided to certain companies of CNOOC Group amounted to RMB45,980,000. Annual revenue in 2011 of the Company from sale of our products to CNOOC and its associates amounted to RMB110,782,000. Annual expenses in 2011 of DYK Chemical on purchases of products from CNOOC Group amounted to RMB322,382,000.

5 Financial Services Agreement

In 2011, the Group continued with the financial transactions with CNOOC Finance under the terms and conditions of the Financial Services Agreement. Therefore, the Company entered into a supplemental agreement to the Financial Services Agreement on 3 November 2008, which was passed and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008, pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

(a) provision of loans to the Group, which do not include entrustment loans referred to in Category (c2);

(b) deposit services;

(c1) bank bills discounting services;

(c2) arrangement of entrustment loans between the Company and its subsidiaries; and

(c3) settlement services, including settlements for transactions among the Company and its subsidiaries and among the Group and certain members of CNOOC Group.

Pursuant to the supplemental agreement, the term of the Financial Services Agreement commenced on 1 January 2009 and expired on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The fees and charges payable by the Group to CNOOC Finance under the Financial Services Agreement are determined on the following basis:

(a) provision of loans to the Group: the interest rates for such loans are determined in accordance with the standard rates promulgated by the PBOC from time to time, and may be adjusted, where permitted, by relevant laws and regulations;

(b) deposit services: the interest rates for such deposits are determined in accordance with the standard rates promulgated by the PBOC from time to time;

(c1) bank bills discounting services: the interest rates for such discounting services are determined in accordance with the standard rates promulgated by the PBOC from time to time less discounts set out in the specific agreements; and the interest for discounting bank bills is borne by the relevant parties presenting the bills;

(c2) arrangement of entrustment loans among the Company and its subsidiaries: the annual service fee payable by the Group is set at a rate, such that the aggregate amount of service fee and loan interest together will not exceed the interest for securing a loan of the same term directly from independent commercial banks; and

(c3) settlement services: no service fee is charged.

Under the Financial Services Agreement, the Group shall have a unilateral right of set-off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group, the Group will be able to offset the amount due to the Group by CNOOC Finance against the amount due by the Group to CNOOC Finance. CNOOC Finance shall not have any offset right.

In 2011, the maximum daily credit balance provided by CNOOC Finance to the Company was RMB200,000,000. The maximum daily balance of the Company's deposits placed with CNOOC Finance was RMB489,012,000. Annual expenses of the Company on category (c1), (c2) and (c3) services provided by CNOOC amounted to RMB3,355,000.

6 Kingboard Product Sales and Services Agreement

In 2011, the Group continued to enter into transactions with Hong Kong Kingboard and its associates under the terms and conditions of the Kingboard Product Sales and Services Agreement. Therefore, the Company entered into a supplemental agreement to the Kingboard Product Sales and Services Agreement on 5 November 2008, which was approved and ratified by shareholders at the Extraordinary General Meeting held on 30 December 2008, pursuant to which the term of the Kingboard Product Sales and Services Agreement commenced on 1 January 2009 and expired on 31 December 2011 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Kingboard Product Sales and Services Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to third parties and priced in accordance with the following pricing principles:

(i) the government-prescribed price of the PRC government;

(ii) where there is no government-prescribed price but there is a government-guidance price, a price not higher than the government-guidance price of the PRC government;

(iii) where there is neither a government-prescribed price nor a government-guidance price, the market price; and

(iv) where none of the above is applicable, the price as agreed between the relevant parties based on cost plus 15%.

Currently, methanol products and related services covered by the Kingboard Product Sales and Services Agreement are not subject to any government-prescribed or government-guidance prices of the PRC government, but the Company considers it prudent to incorporate pricing principles (i) and (ii) into the above agreement.

The aggregate revenue of the Company in 2011 from the sales of products and provision of related services to Hong Kong Kingboard and its associates amounted to RMB472,450,000.

7 Connected Transactions with Zhejiang AMP

In 2011, the Group continued to enter into transactions in relation to mutual provision of products and services with Zhejiang AMP and its associates under the terms and conditions of the framework agreement with Zhejiang AMP in 2006, of which the term was from 22 August 2006 to 31 December 2008 and was subsequently extended to 31 December 2015 by the parties to the framework agreement. Such transactions were conducted on normal continuing basis in the ordinary and usual course of business of the Group.

For 2011, the total revenue for the provision of products and services to Zhejiang AMP and its associates by the Group amounted to RMB97,561,000; and the total expenses for the acquisition of products and services from Zhejiang AMP and its associates by the Group amounted to RMB11,424,000.

The annual cap and the actual transaction amount of each of the continuing connected transactions in 2011 are set out below:

	Annual cap amount for 2011 (RMB)	Actual transaction amount in 2011 (RMB)
A. Continuing connected transactions with CNOOC and its associates		
(1) Acquisition of property leasing services under the Properties Leasing Agreement (note 1)	28,285,000	26,504,000
(2) Acquisition of transportation services under the COSL Transportation Agreement	117,600,000	116,193,000
(3) Purchase of natural gas under the Natural Gas Purchase and Sale Agreements	2,544,416,000	1,918,426,000
(4) Comprehensive services and sale of products under the Comprehensive Services and Product Sales Agreement		
(a) Acquisition of services and supplies from certain companies within CNOOC Group by the Company	338,872,000	109,566,000
(b) Provision of services and supplies to certain companies within CNOOC Group by the Company	286,415,000	45,980,000
(c) Sales of products to certain companies within CNOOC Group by the Group	552,147,000	110,782,000
(d) Purchases of products from CNOOC Group by DYK Chemical	338,800,000	322,382,000
(5) Financial services under the Financial Services Agreement		
(a) Maximum daily credit balance granted by CNOOC Finance to the Company (note 2)	600,000,000	200,000,000
(b) Maximum daily balance of deposits placed by the Company with CNOOC Finance (note 2)	500,000,000	489,012,000
(c) Category (c1), (c2) and (c3) services accepted by the Company from CNOOC Finance	–	3,355,000
B. Continuing connected transactions with Hong Kong Kingboard and its associates		
Sales of products and provision of services to Hong Kong Kingboard and/or its associates under the Kingboard Product Sales and Services Agreement	1,597,400,000	472,450,000
C.Continuing connected transactions with Zhejiang AMP and its associates (note 3)		
(1) Sales of products and provision of services to Zhejiang AMP and its associates by the Group	138,600,000	97,561,000
(2) Purchase of products and acceptance of services from Zhejiang AMP and its associates by the Group	12,000,000	11,424,000

Note:

(1) The 2011 annual cap for the Continuing Connected Transactions under Category A(1) has been revised to RMB28,285,000 on 26 March 2011 with the approval of the Board. Please refer to the announcement dated 27 March 2011 for details.

(2) The actual and annual cap amounts refer to the Company's maximum daily balance during the year.

(3) Please refer to the announcements dated 11 July 2010, 27 March 2011 and 9 November 2011, respectively for details of the continuing connected transactions between the Company and Zhejiang AMP and its associates.

Independent Non-executive Directors have reviewed the above connected transactions and confirmed as follows:

1. the transactions were conducted in the ordinary and usual course of business of the Group with connected persons or their respective associates (if applicable);

2. the transactions were conducted on normal commercial terms or terms which (if no comparable terms are available) were no less favourable than those offered to or by independent third parties; and

3. the transactions were conducted in accordance with the relevant agreements governing the transactions and all terms were fair and reasonable to the independent shareholders and in the interests of the shareholders of the Company as a whole.

The Company's auditors have reviewed the above connected transactions and confirmed to the Company in writing that:

1. the above transactions have been approved by the Board of the Company;

2. where the above transactions were related to products and services provided by the Company, they were conducted in accordance with the Company's pricing policy;

3. the above transactions were conducted in accordance with the terms of relevant agreements governing such transactions; and

4. the above transactions (if applicable) did not exceed the relevant annual caps as disclosed in previous announcements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, during the year ended 31 December 2011 and up to the date of this annual report, the Company has maintained a sufficient public float of more than 25% of the Company's total issued share capital as required under the Listing Rules.

Material Litigation

As at 31 December 2011, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company so far as the Company is aware.

Audit Committee

The 2011 annual results of the Company have been reviewed by the Audit Committee of the Board which comprises three Independent Non-executive Directors. The Committee has reviewed the accounting principles and practices adopted by the Company, and also discussed the auditing, internal control and financial reporting matters, including the review of the 2011 audited annual results with the management.

Code on Corporate Governance Practices and Model Code for Securities Transactions

The Company is committed to high standards of corporate governance to enhance transparency and safeguard shareholders' interests as a whole. As at 31 December 2011, the Company has strictly complied with the provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules in respect of the securities transactions of the Directors. After specific enquiries of all Directors, the Company has confirmed that all Directors complied with the requirements set out in the Model Code.

Auditor

The 2011 financial statements have been audited by Ernst & Young who will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming AGM. The Company did not change its auditor in any of the preceding three years.

For and on behalf of the Board

LI Hui

Chairman

Shenzhen, the PRC, 29 March 2012

Report of the Supervisory Committee

In 2011, all the members of the Supervisory Committee earnestly performed their supervisory functions in accordance with the relevant provisions of the Company Law of the PRC, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules. The Supervisory Committee supervises the performance of our Directors by attending general meetings and Board meetings of the Company. The Supervisory Committee also inspects regularly the Company's major production and operation and the financial position of the Company, and conducts site inspections as and when required, in order to learn and supervise functions of the Company executed by our management. The Supervisory Committee performs its supervisory functions to safeguard the rights and interests of the Company and the shareholders.

1. Meetings of the Supervisory Committee

(1) The 2011 First Meeting of the Supervisory Committee was held in Shenzhen, Guangdong on 25 March 2011 at which the 2010 Report of the Supervisory Committee of China BlueChemical Ltd. was considered and passed, the 2010 financial reports was reviewed and the key tasks of the Supervisory Committee in 2011 were discussed.

(2) The 2011 Second Meeting of the Supervisory Committee was held in Shenzhen, Guangdong on 26 August 2011 at which the 2011 interim financial report of the Company was reviewed and the key tasks of the Supervisory Committee in the second half of 2011 were discussed.

2. Principal Inspection and Supervision Work of the Supervisory Committee in 2011

(1) Members of the Supervisory Committee supervised and inspected the financial position of the Company and its internal control systems, such as financial management system, including regular inspections of the financial reports and budgets and reviews of information from time to time, such as accounting books, documents and their related contracts of the Company.

(2) Members of the Supervisory Committee attended the annual general meeting and two extraordinary general meetings and presided six Board meetings and provided supervision in respect of the lawfulness and compliance of the proceedings of the matters considered by the Board meetings.

(3) The Supervisory Committee made no objection to the reports and motions tabled at the general meetings, and the Board had faithfully implemented the resolutions passed by the general meetings.

(4) In 2011, various site investigations and researches were conducted by the Supervisory Committee, including Hainan Fudao Phases I and II, Guangxi Fudao Agricultural Means of Production Limited, Hegang Huahe Coal Chemical Ltd. , CNOOC Hualu ShanXi Coal Chemical Co., Ltd. and Hubei Dayukou Chemical Co., Ltd..

3. Independent Opinions Issued by the Supervisory Committee in respect of on Relevant Matters

(1) Operation and management of the Company

During the reporting period, the Company managed to achieve satisfactory results in areas of production and operation, project construction, capital operation, internal management and market expansion with the annual targets set on production and operations being achieved. The management of the Company focused on optimization and on-going improvement of our internal controls with further progress in the level of corporate governance.

The management of the Company has fulfilled their duties and functions faithfully as stipulated in the Articles and implemented earnestly the resolutions passed by the Board.

(2) Financial position of the Company

Members of the Supervisory Committee supervised and inspected the financial management system and the financial condition and reviewed and approved the relevant financial information of the Company and were of the opinion that the Company had strictly complied with the relevant laws and regulations of finance and economics and the financial regime, and the financial management system was sound and implemented effectively. Its accounting treatments were in line with the principles of consistency. The Company's financial reports have objectively and fairly reflected the financial position and operating results of the Company.

The Supervisory Committee has reviewed the unqualified audited reports in respect of the financial position and operating results of the Company for 2011 audited by Ernst & Young Huaming, Certified Public Accountants and Ernst & Young, Certified Public Accountants pursuant to the PRC and International Accounting Standards, respectively, and had no objection to the report.

(3) Uses of proceeds raised

Uses of proceeds raised were consistent with those undertaken in the prospectus of the Company.

(4) Connected transactions

The Supervisory Committee examined at random the connected transactions between the Company and its subsidiaries and its respective connected persons from time to time during the reporting period, and was of the opinion that the connected transactions complied with the relevant provisions of the Listing Rules, and the pricing of the connected transactions was reasonable, open and fair and there has not been any matter prejudicial to the interests of the shareholders and the Company.

In addition, the Supervisory Committee reviewed the agreements or supplemental agreements in relation to all connected transactions and the annual caps for 2012 to 2014, and concurred with the opinion letter from the independent financial adviser of the Company.

(5) Implementation of the resolutions of general meetings

The Supervisory Committee raised no objection to the reports and motions tabled at the general meetings for consideration and the Board had faithfully implemented the resolutions approved by the general meetings.

In 2012, the Supervisory Committee will continue to closely monitor the regulatory compliance of the operation activities of the Company and supervise the actions of its Directors and senior management in their performance of duties, and pay close attention to any significant development and continue to strengthen the procedural supervision of the Company's investment projects so as to facilitate the efficient growth in economic return of the Company and to faithfully safeguard the interests of all shareholders and the Company in accordance with the relevant provisions of the Company Law, the Articles, the Rules of Meetings of the Supervisory Committee and the Listing Rules and the principle of honesty as it has been.

By Order of the Supervisory Committee

Qiu Kewen

Chairman of the Supervisory Committee

Shenzhen, the PRC, 27 March 2012

Audited Financial Statements

China BlueChemical Ltd.

(Incorporated in the People's Republic of China
as a joint stock company with limited liability)

31 December 2011

Independent auditors' report

ERNST & YOUNG
安永會計師事務所

To the shareholders of China BlueChemical Ltd.

(Incorporated in the People's Republic of China as a joint stock company with limited liability)

We have audited the consolidated financial statements of China BlueChemical Ltd. ("the Company") and its subsidiaries (together, "the Group") set out on pages 50 to 126 which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

29 March 2012

Consolidated income statement

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	5	**9,756,314**	6,867,250
Cost of sales		**(6,488,688)**	(4,678,512)
Gross profit		**3,267,626**	2,188,738
Other income and gains	5	**127,861**	67,289
Selling and distribution costs		**(169,381)**	(147,795)
Administrative expenses		**(418,259)**	(382,619)
Other expenses		**(32,057)**	(34,803)
Finance income	6	**15,966**	11,324
Finance costs	7	**(18,005)**	(11,915)
Exchange gains/(losses), net		**2,327**	(4,179)
Share of profits/(losses) of associates		**62**	(374)
Profit before tax	8	**2,776,140**	1,685,666
Income tax expense	11	**(556,398)**	(316,012)
Profit for the year		**2,219,742**	1,369,654
Attributable to:			
Owners of the parent	12	**1,985,777**	1,175,285
Non-controlling interests		**233,965**	194,369
		2,219,742	1,369,654
Earnings per share attributable to ordinary equity holders of the parent			
- Basic for the year (RMB)	14	**0.43**	0.25
- Diluted for the year (RMB)		**0.43**	0.25

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated statement of comprehensive income

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Profit for the year		**2,219,742**	1,369,654
Other comprehensive income for the year, net of tax	15	-	-
Total comprehensive income for the year		**2,219,742**	1,369,654
Attributable to:			
Owners of the parent		**1,985,777**	1,175,285
Non-controlling interests		**233,965**	194,369
		2,219,742	1,369,654

Consolidated statement of financial position

Year ended 31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**9,347,634**	8,944,151
Investment properties	17	-	2,041
Mining rights	18	**482,868**	484,136
Prepaid land lease payments	19	**472,695**	475,902
Intangible assets	20	**129,685**	10,856
Investments in associates	23	**654,347**	654,693
Available-for-sale investments	24	**600**	600
Deferred tax assets	25	**110,198**	78,446
		11,198,027	10,650,825
Current assets			
Inventories	26	**1,473,422**	983,644
Trade receivables	27	**147,272**	105,705
Bills receivable	28	**81,196**	35,700
Prepayments, deposits and other receivables	29	**730,989**	296,649
Pledged bank deposits	31	**1,711**	8,556
Time deposits	31	**32,850**	58,500
Cash and cash equivalents	31	**2,803,266**	2,387,092
		5,270,706	3,875,846
Total assets		**16,468,733**	14,526,671

Consolidated statement of financial position (continued)

Year ended 31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
Equity and liabilities			
Equity attributable to owners of the parent			
Issued capital	32	**4,610,000**	4,610,000
Reserves	33	**6,789,415**	5,541,238
Proposed dividends	33	**737,600**	414,900
		12,137,015	10,566,138
Non-controlling interests		**1,430,653**	1,355,866
Total equity		**13,567,668**	11,922,004
Non-current liabilities			
Benefit liability	34	**53,411**	57,607
Interest-bearing bank borrowings	35	**425,000**	335,700
Other long-term liabilities		**129,802**	113,200
Deferred tax liabilities	25	**71,796**	73,588
		680,009	580,095
Current liabilities			
Trade payables	36	**318,689**	222,684
Bills payable	36	**8,550**	-
Other payables and accruals	37	**1,765,424**	1,683,101
Income tax payable		**128,393**	118,787
		2,221,056	2,024,572
Total liabilities		**2,901,065**	2,604,667
Total equity and liabilities		**16,468,733**	14,526,671
Net current assets		**3,049,650**	1,851,274
Total assets less current liabilities		**14,247,677**	12,502,099
Net assets		**13,567,668**	11,922,004

YANG Yexin
Director

FANG Yong
Director

Consolidated statement of changes in equity

Year ended 31 December 2011

	Notes	Attributable to owners of the parent		
		Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2011		**4,610,000**	**1,009,725**	**471,031**
Profit for the year		-	-	-
Total comprehensive income for the year		-	-	-
Appropriation and utilisation of safety fund, net		-	-	-
Transfer from retained profits		-	-	**140,346**
Proposed 2011 final dividend	13	-	-	-
Dividend paid to non-controlling shareholders		-	-	-
Final 2010 dividend declared		-	-	-
As at 31 December 2011		**4,610,000**	**1,009,725***	**611,377***

* These reserve accounts comprise the consolidated reserves of RMB6,789,415,000 (2010: RMB5,541,238,000) in the consolidated statement of financial position.

	Note	Attributable to owners of the parent		
		Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2010		4,610,000	982,955	401,519
Profit for the year		-	-	-
Total comprehensive income for the year		-	-	-
Acquisition of subsidiaries		-	-	-
Grant from the ultimate holding company		-	31,880	-
Capital contributions to non-controlling shareholders		-	(5,110)	-
Appropriation and utilisation of safety fund, net		-	-	-
Transfer from retained profits		-	-	69,512
Proposed 2010 final dividend	13	-	-	-
Dividend paid to non-controlling shareholders		-	-	-
Final 2009 dividend declared		-	-	-
As at 31 December 2010		4,610,000	1,009,725*	471,031*

* These reserve accounts comprise the consolidated reserves of RMB5,541,238,000 in the consolidated statement of financial position.

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
672	**4,059,810**	**414,900**	**10,566,138**	**1,355,866**	**11,922,004**
-	**1,985,777**	**-**	**1,985,777**	**233,965**	**2,219,742**
-	**1,985,777**	**-**	**1,985,777**	**233,965**	**2,219,742**
					-
10,267	**(10,267)**	**-**	**-**	**-**	**-**
-	**(140,346)**	**-**	**-**	**-**	**-**
-	**(737,600)**	**737,600**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(159,178)**	**(159,178)**
-	**-**	**(414,900)**	**(414,900)**	**-**	**(414,900)**
10,939*	**5,157,374***	**737,600**	**12,137,015**	**1,430,653**	**13,567,668**

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
-	3,368,937	322,700	9,686,111	1,258,099	10,944,210
-	1,175,285	-	1,175,285	194,369	1,369,654
-	1,175,285	-	1,175,285	194,369	1,369,654
-	-	-	-	35,599	35,599
-	-	-	31,880	-	31,880
-	-	-	(5,110)	5,110	-
672	-	-	672	-	672
-	(69,512)	-	-	-	-
-	(414,900)	414,900	-	-	-
-	-	-	-	(137,311)	(137,311)
-	-	(322,700)	(322,700)	-	(322,700)
672*	4,059,810*	414,900	10,566,138	1,355,866	11,922,004

Consolidated statement of cash flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Profit before tax		**2,776,140**	1,685,666
Adjustments for:			
Finance costs	7	**18,005**	11,915
Exchange (gains)/losses, net		**(2,327)**	4,179
Share of (profits)/losses of associates		**(62)**	374
Finance income	4	**(15,966)**	(11,324)
Gain on disposal of unlisted investments	5	**(93,456)**	(31,336)
Losses/(Gains) on disposal of items of property, plant and equipment	5,8	**3,275**	(4,733)
Depreciation	8	**841,077**	724,339
Depreciation of investment properties	8	**-**	45
Amortisation of mining rights	8	**1,385**	1,426
Amortisation of prepaid land lease payments	8	**12,176**	11,692
Amortisation of intangible assets	8	**8,841**	6,166
(Write-back of)/Provision for bad and doubtful receivables	8	**(31)**	1,500
Write-back of provision for defined benefit plans	8	**(428)**	(306)
Write-down of inventories to net realisable value	8	**46,001**	-
		3,594,630	2,399,603
Increase in inventories		**(535,780)**	(109,128)
(Increase)/Decrease in trade receivables and bills receivable, prepayments, deposits and other receivables		**(162,672)**	48,907
Increase/(Decrease) in trade payables, other payables and accruals and other long-term liabilities		**518,409**	(144,387)
Cash generated from operations		**3,414,587**	2,194,995
Defined benefits paid	34	**(3,768)**	(3,571)
Income tax paid		**(580,336)**	(236,441)
Net cash flows from operating activities		**2,830,483**	1,954,983

Consolidated statement of cash flows (continued)

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from investing activities			
Interest received		**18,329**	12,444
Purchases of items of property, plant and equipment		**(1,919,447)**	(1,414,277)
Proceeds from disposal of items of property, plant and equipment		**376**	12,288
Additions to prepaid land lease payments	19	**(9,174)**	(10,000)
Additions of intangible assets	20	**(127,670)**	(1,379)
Purchases of mining rights	18	**(117)**	(46,234)
Dividends received		**408**	-
Purchase of available-for-sale investments		**(11,742,857)**	(7,268,200)
Disposal of available-for-sale investments		**11,836,313**	7,300,296
Net cash outflow from acquisition of a subsidiary		-	(82,791)
Decrease of loan receivables		-	50,000
Decrease in pledged bank deposits		**6,845**	4,512
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		**25,650**	65,220
Net cash flows used in investing activities		**(1,911,344)**	(1,378,121)
Cash flows from financing activities			
New bank and other borrowings		**617,707**	335,150
Repayment of bank and other borrowings		**(528,407)**	(39,650)
Cash received relating to other financing activities		-	31,880
Interest paid		**(18,187)**	(1,813)
Dividends paid		**(414,900)**	(322,700)
Dividends paid to non-controlling shareholders		**(159,178)**	(137,311)
Net cash flows used in financing activities		**(502,965)**	(134,444)
Net Increase in cash and cash equivalents		**416,174**	442,418
Cash and cash equivalents at 1 January		**2,387,092**	1,944,674
Cash and cash equivalents at 31 December		**2,803,266**	2,387,092

Statement of financial position

Year ended 31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	**2,596,235**	2,840,433
Investment properties		**15,232**	16,074
Prepaid land lease payments	19	**45,681**	41,739
Intangible assets	20	**1,286**	3,575
Interests in subsidiaries	21	**4,281,001**	4,281,001
Investment in a jointly-controlled entity	22	**122,189**	105,882
Investment in an associate	23	**637,000**	637,000
Deferred tax assets	25	**21,893**	19,803
		7,720,517	7,945,507
Current assets			
Inventories	26	**310,274**	219,730
Trade receivables	27	**32,149**	42,694
Bills receivable	28	**11,890**	-
Prepayments, deposits and other receivables	29	**117,626**	91,470
Loans receivable	30	**797,500**	325,000
Cash and cash equivalents	31	**1,653,204**	1,331,624
		2,922,643	2,010,518
Total assets		**10,643,160**	9,956,025
Equity and liabilities			
Equity			
Paid-up capital	32	**4,610,000**	4,610,000
Reserves	33	**4,667,598**	3,971,161
Proposed dividends	33	**737,600**	414,900
Total equity		**10,015,198**	8,996,061
Non-current liabilities			
Interest-bearing bank borrowings	35	**-**	235,700
Other long-term liabilities		**18,673**	24,534
		18,673	260,234
Current liabilities			
Trade payables	36	**53,090**	90,263
Other payables and accruals	37	**473,162**	550,801
Income tax payable		**83,037**	58,666
		609,289	699,730
Total liabilities		**627,962**	959,964
Total equity and liabilities		**10,643,160**	9,956,025

YANG Yexin
Director

FANG Yong
Director

Notes to the financial statements

Year ended 31 December 2011

1 Corporate information

China BlueChemical Ltd. (the "Company") was established in the People's Republic of China (the "PRC") on 3 July 2000 as a limited liability company under the name of CNOOC Chemical Limited (中海石油化學有限公司). The Company's name was changed to China BlueChemical Ltd. (中海石油化學股份有限公司) on 25 April 2006. The registered office of the Company is located at No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province,PRC.

In September and October 2006, the Company issued an aggregate 1,610,000,000 new H shares at a price of HKD1.90 per share to the public, which were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sale of urea, phosphorus fertiliser, methanol and polyformaldehyde ("POM").

In the opinion of the directors, the ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a state-owned enterprise established in the PRC.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the owners of the parent and to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The Group's investments in its jointly-controlled entities are accounted for by proportionate consolidation from the dates on which joint control over the jointly-controlled entities are established, which involve recognising in the consolidated financial statements a proportionate share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items on a line-by-line basis.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.2 Changes in accounting policy and disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC14 Amendments	Amendments to IFRIC14 *Prepayments of a Minimum Funding Requirement*
IFRIC19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs (Issued in May 2010)	Amendments to a number of IFRSs

Other than as further explained below regarding the impact of IAS 24 (Revised), and IAS 1 included in Improvements to IFRSs 2010 (Include other standards as appropriate), the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements..

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 41 to the consolidated financial statements.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the notes to the financial statements.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.3 Issued but not yet effective international financial standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IFRIC-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 January 2012

[3] Effective for annual periods beginning on or after 1 July 2012

[4] Effective for annual periods beginning on or after 1 January 2013

[5] Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In November 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting

Notes to the financial statements (continued)

Year ended 31 December 2011

2.3 Issued but not yet effective international financial standards (continued)

mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 Consolidated and Separate Financial Statements, IAS 31 Interests in Joint Ventures and IAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

Amendments to IAS 19 include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt the amendments from 1 January 2013.

IFRIC-Int 20 addresses the recognition of waste removal costs that are incurred in the surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the costs incurred are accounted for in accordance with IAS 2 Inventories. To extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognized as a stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 January 2013.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of the jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of the associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and Buildings	1.80% to 7.14%
Plant and machinery	5.00% to 20.00%
Motor vehicles	6.00% to 20.00%
Computer and electronic equipment	18.00% to 20.00%
Office and other equipment	18.00% to 50.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of the retirement or disposal.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on the units of production method utilising only proved and probable coal reserve in the depletion base.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of ten years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction cost, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date that is, the date that the Group commits to purchase or sell the asset.Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade receivables, bills receivable, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, timing deposits, and available-for-sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, these investments are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive and recognised in the consolidated income statement.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables, bills payable, financial liabilities included in other payables and accruals, an amount due to the ultimate holding company and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowing is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including the deposits within three months, but excluding time deposits over three months which are disclosed as a separate single line on the consolidated statement of financial position.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates that have been enacted or subsequently enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has became probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis .

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes model; taking into account the terms and conditions upon which the instruments were granted (note 38). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

Employee benefits

Retirement benefits

The Group, its jointly-controlled entities and associates participate in a government–regulated defined contribution pension scheme, under which the Group, its jointly-controlled entities and associates make contributions into the government–regulated pension scheme at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred.

In addition to the benefits under the government-regulated defined contribution pension scheme above, CNOOC Tianye Chemical Limited ("CNOOC Tianye"), the Group's 90%-owned subsidiary also pays supplementary pensions to early retirees in accordance with an internal retirement plan and allowances to retired employees in accordance with the local labour regulations. As detailed in note 34 to the financial statements, these supplementary pensions and post employment allowances payable as at the end of the reporting period were assessed using the projected unit credit actuarial valuation method; the cost of providing these pensions and allowances to the qualifying employees, including the active employees, is charged to the consolidated income statement as shown in the actuarial reports which contained full valuations of the obligations for the relevant accounting periods. These obligations are measured at the present value of the estimated future cash outflows using interest rates of the government securities which have terms to maturity similar to the terms of the related liability. When the net cumulative actuarial gains and losses exceed ten percent of the present value of the defined benefit obligation, the portion of actuarial gains and losses which excess that fell outside the 10% 'corridor' at the end of the previous reporting period, is recognised in the consolidated income statement over the expected average remaining working lives of the employees participating in that plan.

Details of the government-regulated pension scheme and the supplementary pension benefits are set out in note 8 to the financial statements.

Notes to the financial statements (continued)

Year ended 31 December 2011

2.4 Summary of significant accounting policies(continued)

Medical benefit costs

The Group, its jointly-controlled entities and associates participate in government–organised defined contribution medical benefit plans, under which the Group, its jointly-controlled entities and associates make contributions into a government–organised medical benefit plan at a fixed percentage of wages and salaries of the existing full time employees in the PRC and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred. Details of the medical benefit plan are set out in note 8 to the financial statements.

Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organised by the PRC government. Contributions to this plan by the Group are expensed as incurred. Details of the housing fund plan are set out in note 8 to the financial statements.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The financial records of the Group, its jointly-controlled entities and associates are maintained and these financial statements are stated in Renminbi ("RMB"), which is the functional and presentation currency of the Group, its jointly-controlled entities and associates.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of money items are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

Notes to the financial statements (continued)

Year ended 31 December 2011

3 Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

(a) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

(b) Write-down of inventories to net realisable value

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back in the period in which these estimates have been changed.

(c) Provision for bad and doubtful receivables

Provision for bad and doubtful receivables is made based on the assessment of the recoverability of trade receivables and other receivables. The identification of doubtful receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, these differences will have an impact on the carrying amounts of the receivables and doubtful debt expenses/write-back in the period in which these estimates have been changed.

Notes to the financial statements (continued)

Year ended 31 December 2011

3 Significant accounting judgements and estimates (continued)

(d) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(e) Depreciation of property, plant and equipment

The cost of items of property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of plant and machinery to be 5 to 18 years, and other assets ranging from 2 to 50 years.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, and therefore depreciation charges might be revised in future.

4 Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has reportable operating segments as follows:

(a) the urea segment which is engaged in the manufacture and sale of urea;

(b) the phosphorus fertiliser segment is engaged in the manufacture and sale of mono-ammonium phosphate ("MAP") and di-ammonium phosphate ("DAP") fertiliser;

(c) the methanol segment is engaged in the manufacture and sale of methanol; and

(d) the "others" segment mainly comprises segments engaged in manufacture and sale of BB fertiliser, POM and woven plastic bags, trading of fertilisers and chemicals, port operations and provision of transportation services.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with adjusted operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are determined on an arm's length basis in a manner similar to transactions with third parties.

Notes to the financial statements (continued)

Year ended 31 December 2011

4 Operating segment information (continued)

Business segments

	Urea RMB'000	Phosphorus fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2011						
Segment revenue:						
Sales to external customers	4,047,080	1,349,761	3,345,907	1,013,566	-	9,756,314
Inter-segment sales	57,337	1,887	31,436	166,563	(257,223)	-
Total	4,104,417	1,351,648	3,377,343	1,180,129	[1](257,223)	9,756,314
Segment results	1,335,809	159,502	1,264,355	6,070	(83,114)	2,682,622
Share of profits of associates	-	-	-	62	-	62
Gain on disposal of unlisted investments	85,693	802	6,257	704	-	93,456
Segment profit before tax	1,421,502	160,304	1,270,612	6,836	[2](83,114)	2,776,140
As at 31 December 2011						
Operating assets	4,155,204	2,869,481	3,537,757	3,320,704	[3]2,585,587	16,468,733
Operating liabilities	876,554	1,434,069	371,339	1,624,000	[4] (1,404,897)	2,901,065
Other segment information:						
Depreciation and amortisation	493,664	66,504	228,073	75,238	-	863,479
Investments in associates	653,230	-	-	1,117	-	654,347
Capital expenditure *	503,235	1,016,542	2,239	256,197	-	1,778,213

* Capital expenditure consists of additions to property, plant and equipments, intangible assets, mining rights and prepaid land lease payments.

1. Intersegment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB96,339,000), finance income (RMB15,966,000), exchange gains on translation of foreign operations (RMB2,327,000), finance costs (RMB18,005,000), bank charges (RMB2,078,000), other income and gains (RMB28,412,000), other expenses (RMB29,979,000) and other unallocated revenues (RMB16,582,000).
3. Segment assets do not include deferred tax assets (RMB110,198,000), available-for-sale financial assets (RMB600,000), cash and bank balances (RMB1,688,306,000), assets of centralised cost centre (RMB850,473,000) and intersegment balances (RMB63,990,000).
4. Segment liabilities do not include interest payables (RMB452,000), deferred tax liabilities (RMB71,796,000), liabilities of centralised cost centre (RMB897,000) and intersegment balances (RMB1,478,042,000).

Notes to the financial statements (continued)

Year ended 31 December 2011

4 Operating segment information (continued)

Business segments (continued)

	Urea RMB'000	Phosphorus fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2010						
Segment revenue:						
Sales to external customers	3,514,770	1,234,119	1,690,889	427,472	-	6,867,250
Inter-segment sales	24,793	1,121	25,871	132,741	[1](184,526)	-
Total	3,539,563	1,235,240	1,716,760	560,213	(184,526)	6,867,250
Segment results	1,039,396	149,348	512,359	27,334	[2](73,733)	1,654,704
Share of (losses)/profits of associates	(823)	-	-	449	-	(374)
Gain on disposal of unlistedinvestments	24,840	1,753	3,779	964	-	31,336
Segment profit before tax	1,063,413	151,101	516,138	28,747	(73,733)	1,685,666
As at 31 December 2010						
Operating assets	5,334,868	1,811,115	3,395,500	3,052,335	[3]932,853	14,526,671
Operating liabilities	209,676	581,792	568,749	1,483,486	[4](239,036)	2,604,667
Other segment information:						
Depreciation and amortisation	478,394	84,831	149,749	30,694	-	743,668
Investments in associates	653,230	-	-	1,463	-	654,693
Capital expenditure*	228,806	250,185	1,034,331	619,799	-	2,133,121

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of a subsidiary.

1. Intersegment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include unallocated administrative expenses (RMB102,612,000), finance income (RMB11,324,000), exchange losses on translation of foreign operations (RMB4,179,000), finance costs (RMB11,915,000), bank charges (RMB988,000), other income and gains (RMB26,626,000), other expenses (RMB28,190,000) and other unallocated revenues (RMB36,201,000).
3. Segment assets do not include interest receivables (RMB580,000), deferred tax assets (RMB78,446,000), available-for-sale financial assets (RMB600,000), cash and bank balances(RMB50,503,000), assets of centralised cost centre (RMB852,408,000) and intersegment balances (RMB49,684,000).
4. Segment liabilities do not include interest payables (RMB635,000), long-term borrowings (RMB335,700,000), deferred tax liabilities (RMB73,588,000), liabilities of centralised cost centre (RMB897,000) and inter-segment balances (RMB649,856,000).

Notes to the financial statements (continued)

Year ended 31 December 2011

4 Operating segment information (continued)

Geographic information

(a) Revenue from external customers

	2011 RMB'000	2010 RMB'000
Sales to external customers:		
- PRC	**8,910,479**	5,724,542
- Others	**845,835**	1,142,708
	9,756,314	6,867,250

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations during the year were individually and collectively less than 10% of the Group's revenues (2010: Less than 10%).

(b) Non-current assets

In determining the Group's geographical information, non-current assets are attributed to the segments based on the location of assets. All of the non-current assets are located in PRC

5 Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value added tax ("VAT"), after allowances for returns and discounts; and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods	**9,395,412**	6,490,707
Rendering of services	**360,902**	376,543
	9,756,314	6,867,250
Other income and gains		
Gain on disposal of unlisted investments	**93,456**	31,336
Income from the sale of other materials	**8,563**	17,389
Income from rendering of other services	**6,181**	4,937
VAT refund	**-**	501
Gain on disposal of items of property, plant and equipment	**186**	4,733
Gross rental income	**1,548**	886
Indemnities received	**912**	4,427
Government grant	**17,015**	3,080
	127,861	67,289

Notes to the financial statements (continued)

Year ended 31 December 2011

6 Finance income

Finance income represents interest income earned for the years ended 31December 2011 and 2010.

7 Finance costs

	2011 RMB'000	2010 RMB'000
Total interest expense on bank loans	**26,789**	17,525
Less: Interest capitalised	**(8,784)**	(5,610)
	18,005	11,915

8 Profit before tax

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold		**5,858,462**	4,295,986
Cost of services provided		**299,744**	293,721
Depreciation	16	**841,077**	724,339
Depreciation of investment properties	17	**-**	45
Amortisation of mining rights	18	**1,385**	1,426
Amortisation of prepaid land lease payments	19	**12,176**	11,692
Amortisation of intangible assets	20	**8,841**	6,166
Auditors' remuneration		**3,900**	3,570
Employee benefit expense (including directors' and supervisors' remuneration – note 9):			
Wages and salaries		**446,644**	426,549
Defined contribution pension scheme		**58,989**	52,015
Early retirement benefits and post-employment allowances (note 34)		**(428)**	(306)
Medical benefit costs		**28,712**	19,124
Cash-settled share option expense (note 38)		**1,003**	1,064
Housing fund		**27,069**	22,694
		561,989	521,140
Write-back of provision for bad and doubtful debts of trade receivables*		**-**	(5)
Write-back of provision for bad and doubtful debts of other receivables*		**(31)**	-
Provision for bad and doubtful debts of other receivables*		**-**	1,505
Loss on disposal of items of property, plant and equipment *		**3,461**	-
Write-down of inventories to net realisable value		**46,001**	-

* These items are included in "other expenses" on the face of the consolidated income statement.

Notes to the financial statements (continued)

Year ended 31 December 2011

9 Directors' and supervisors' remuneration

Details of the directors' and supervisors' remuneration for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors	
	2011	2010
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**1,432**	1,226
Discretionary bonuses	**927**	839
Cash-settled share option expense	**534**	564
Pension scheme contributions	**110**	103
	3,003	2,732

	Supervisors	
	2011	2010
	RMB'000	RMB'000
Fees	-	-
Other emoluments:		
Salaries, housing benefits, other allowances and benefits in kind	**240**	175
Discretionary bonuses	**125**	125
Pension scheme contributions	**23**	22
	388	322

During the past years, certain directors and supervisors were granted share options in respect of their services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and supervisors' remuneration disclosures.

Notes to the financial statements (continued)

Year ended 31 December 2011

9 Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors of the Group for the year ended 31 December 2011 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Cash-settled share option expense	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive director					
Li Hui*	36	-	-	-	36
Wu Mengfei*	21	-	170	-	191
	57	-	170	-	227
Executive directors					
Yang Yexin	254	343	144	40	781
Fang Yong	181	276	110	32	599
Chen Kai	264	308	110	38	720
	699	927	364	110	2,100
Independent non-executive directors					
Zhang Xinzhi	193	-	-	-	193
Tsui Yiu Wa, Alec	308	-	-	-	308
Gu Zongqin	175	-	-	-	175
Gu Zongqin *	676	-	-	-	676
	1,432	927	534	110	3,003
Supervisors					
Qiu Kewen	29	-	-	-	29
Zhang Ping	122	125	-	23	270
Huang Jinggui	89	-	-	-	89
	240	125	-	23	388

* Wu Mengfei resigned on 29 July 2011, and Li Hui was appointed as a non-executive director on 28 July 2011.

Notes to the financial statements (continued)

Year ended 31 December 2011

9 Directors' and supervisors' remuneration (continued)

The remuneration of each of the directors and supervisors of the Company for the year ended 31 December 2010 is set out below:

	Salaries, housing benefits, other allowances and benefits in kind	Discretionary bonuses	Cash-settled share option benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors					
Non-executive director					
Wu Mengfei	38	-	180	-	218
Executive directors					
Yang Yexin	237	306	152	38	733
Fang Yong	169	251	116	28	564
Chen Kai	220	282	116	37	655
	626	839	384	103	1,952
Independent non-executive directors					
Zhang Xinzhi	173	-	-	-	173
Tsui Yiu Wa, Alec	290	-	-	-	290
Li Yongwu*	12	-	-	-	12
Gu Zongqin*	87	-	-	-	87
	562	-	-	-	562
	1,226	839	564	103	2,732
Supervisors					
Yin Jihong**	5	-	-	-	5
Qiu Kewen**	14	-	-	-	14
Zhang Ping	86	125	-	22	233
Huang Jinggui	70	-	-	-	70
	175	**125**	-	**22**	**322**

* Li Yongwu resigned on 30 June 2010, and Gu Zongqin was appointed as an independent non-executive director on 4 June 2010.

** Yin Jihong resigned on 4 June 2010, and Qiu Kewen was appointed as a supervisor on the same date.

Notes to the financial statements (continued)

Year ended 31 December 2011

10 Five highest paid employees

The five highest paid employees of the Group during the years ended 31 December 2011 and 2010 are analysed as follows:

	2011	2010
Directors and supervisors	**3**	3
Non-director and non-supervisor employees	**2**	2
	5	5

Details of the remuneration of the non-director and non-supervisor, highest paid employees during the years ended 31 December 2011 and 2010 are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**372**	363
Discretionary bonuses	**534**	510
Cash-settled share option expense	**172**	183
Pension scheme contributions	**61**	61
	1,139	1,117

The remuneration of both non-director and non-supervisor, highest paid employees fell within the band from nil to HKD1,000,000 for the years ended 31 December 2011 and 2010.

During the past years, certain non-directors and highest paid employees were granted share options in respect of their services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-directors' and highest paid employees' remuneration disclosures.

Notes to the financial statements (continued)

Year ended 31 December 2011

11 Income tax expense

Major components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

	2011 RMB'000	2010 RMB'000
Current – PRC		
Charge for the year	**589,942**	331,232
Deferred (note 25)	**(33,544)**	(15,220)
Total tax charge for the year	**556,398**	316,012

(a) Corporate income tax ("CIT")

During the 5th Session of the 10th National People's Congress, which concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

According to the document Finance Taxes [2008] No. 21 issued by the Ministry of Finance and the State Administration of Taxation on 20 February 2008, certain companies entitled to transitional CIT rates of 20%, 22% and 24% for the years 2009, 2010 and 2011 respectively. A CIT rate of 25% will be applied from 2012 onwards. The Company and its two subsidiaries, Hainan CNOOC Complex Fertiliser Co., Ltd. and Hainan CNOOC Plastic Company Limited ("CNOOC Plastic"), are entitled to a transitional CIT rate of 24% for the current year.

CNOOC Fudao Limited ("CNOOC Fudao"), a subsidiary of the Company, is entitled to a preferential tax rate of 15% for the three years ending 31 December 2013 after being assessed as a high new technology entity.

CNOOC Tianye, a subsidiary of the Company, was entitled to a preferential tax rate of 15% for the three years ended 31 December 2011 after being assessed as a high new technology entity.

Hubei Dayukou Chemical Co.,Ltd. ("DYK Chemical"), a subsidiary of the Company, was entitled to a preferential CIT rate of 15% for the year 2011 after being assessed as a high and new technology enterprise.

Hainan Basuo Port Limited ("Hainan Basuo"), a subsidiary of the Company, was entitled to an exemption from CIT for the five years ended 31 December 2009 and a 50% reduction in the applicable CIT rate for the five years ending 31 December 2014 as it is engaged in infrastructure development and operations.

CNOOC Kingboard Chemical Limited ("CNOOC Jiantao"), a subsidiary of the Company, is a foreign investment enterprise and is entitled to an exemption from CIT for its first two profitable years and a 50% reduction in the applicable CIT rate for the subsequent three years. The year of 2007 is the first tax profitable year. The year of 2011 is the last year for CNOOC Jiantao to be entitled to the 50% reduction of the applicable CIT rate of 24%.

CNOOC (Hainan) E&P Gas Limited ("CNOOC E&P") is entitled to a two-year income tax exemption followed by a three-year 50% reduction in the applicable CIT rate commencing from the first profitable year. The year of 2008 is the first tax profitable year. The year of 2011 is the second year for CNOOC E&P to be entitled to the 50% reduction of the applicable CIT rate of 24%.

Notes to the financial statements (continued)

Year ended 31 December 2011

11 Income tax expense (continued)

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the years ended 31 December 2011 and 2010.

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for the country in which the Group is domiciled to the income tax expense at the effective tax rate is as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	**2,776,140**	1,685,666
Tax at the statutory tax rate of 25%	**694,035**	421,417
Lower tax rates for specific provinces/ districts or concessions	**(146,500)**	(121,092)
Adjustments in respect of current tax of previous period	**6,708**	12,807
Expenses not deductible for tax	**2,155**	2,880
Income tax expense reported in the consolidated income statement	**556,398**	316,012
The Group's effective income tax rate	**20.0%**	18.7%

12 Profit for the year attributable to owners of the parent

The consolidated profit for the year attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB1,434,037,000 (2010: RMB718,068,000) dealt with in the financial statements of the Company (note 33).

13 Dividends

	2011 RMB'000	2010 RMB'000
Proposed final – RMB0.16 (2010: RMB0.09) per ordinary share	**737,600**	414,900

The proposed 2010 final dividend was approved at the annual general meeting on 3 June 2011. The proposed 2011 final dividend is subject to the approval of the Company's shareholders at the forthcoming 2011 annual general meeting.

Upon listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the profit after tax as determined under Chinese Accounting Standards for Business Enterprises ("PRC GAAP") and IFRS.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] No. 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

Notes to the financial statements (continued)

Year ended 31 December 2011

14 Earnings per share attributable to ordinary equity holders of the parent

	2011 RMB'000	2010 RMB'000
Earnings		
Profit for the year attributable to equity holders of the parent	**1,985,777**	1,175,285

	Number of shares	
	'000	'000
Shares		
Number of shares in issue during the year	**4,610,000**	4,610,000

The Group had no potential dilutive ordinary shares in issue during these years.

15 Components of other comprehensive income

Movements of other comprehensive income before tax

	2011 RMB'000	2010 RMB'000
Available-for-sale investments:		
Gains arising during the year	**93,456**	31,798
Less: Reclassification adjustment for gains included in the consolidated income statement – gains on disposal	**(93,456)**	(31,798)
	-	-

Tax effect of components of othercomprehensive income

	2011 RMB'000	2010 RMB'000
Available-for-sale investments:		
Gains arising during the year	**23,364**	7,950
Less: Reclassification adjustment for gains included in the consolidated income statement	**(23,364)**	(7,950)
	-	-

Notes to the financial statements (continued)

Year ended 31 December 2011

16 Property, plant and equipment

Group

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2011:							
Cost	3,305,243	9,345,951	146,758	500,931	126,231	1,971,501	15,396,615
Accumulated depreciation and impairment	(1,372,082)	(4,518,335)	(98,711)	(410,801)	(52,535)	-	(6,452,464)
Net carrying amount	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151
Cost as at 31 December 2011, net of accumulated depreciation and impairment	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151
Additions	639	15,623	1,958	7,775	731	1,219,831	1,246,557
Disposals	-	(2,798)	(370)	(859)	(11)	-	(4,038)
Transfers	289,086	1,070,605	36,145	224,862	1,545	(1,622,243)	-
Transfers from investment properties	2,041	-	-	-	-	-	2,041
Depreciation for the year	(143,861)	(650,177)	(9,173)	(33,670)	(4,196)	-	(841,077)
Cost as at 31 December 2011, net of accumulated depreciation and impairment	2,081,066	5,260,869	76,607	288,238	71,765	1,569,089	9,347,634
As at 31 December 2011	3,597,641	10,425,237	182,726	730,616	129,270	1,569,089	16,634,579
Cost							
Accumulated depreciation and impairment	(1,516,575)	(5,164,368)	(106,119)	(442,378)	(57,505)	-	(7,286,945)
Net carrying amount	2,081,066	5,260,869	76,607	288,238	71,765	1,569,089	9,347,634

Notes to the financial statements (continued)

Year ended 31 December 2011

16 Property, plant and equipment (continued)

Group (continued)

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2010 :							
Cost	3,151,273	7,624,271	142,871	471,845	117,072	1,622,654	13,129,986
Accumulated depreciation and impairment	(1,239,140)	(3,992,043)	(85,365)	(373,304)	(45,250)	-	(5,735,102)
Net carrying amount	1,912,133	3,632,228	57,506	98,541	71,822	1,622,654	7,394,884
Cost as at 1 January 2010, net of accumulated depreciation and impairment	1,912,133	3,632,228	57,506	98,541	71,822	1,622,654	7,394,884
Additions	2,642	15,458	1,423	6,306	890	2,161,243	2,187,962
Acquisition of a subsidiary	7,253	-	2,103	159	1,245	82,439	93,199
Disposals	(4,604)	(2,539)	(12)	(266)	(134)	-	(7,555)
Transfers	153,408	1,709,857	596	23,750	7,224	(1,894,835)	-
Depreciation for the year	(137,671)	(527,388)	(13,569)	(38,360)	(7,351)	-	(724,339)
Cost as at 31 December 2010, net of accumulated depreciation and impairment	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151
As at 31 December 2010:							
Cost	3,305,243	9,345,951	146,758	500,931	126,231	1,971,501	15,396,615
Accumulated depreciation and impairment	(1,372,082)	(4,518,335)	(98,711)	(410,801)	(52,535)	-	(6,452,464)
Net carrying amount	1,933,161	4,827,616	48,047	90,130	73,696	1,971,501	8,944,151

As at 31 December 2011, the Group has yet to obtain building ownership certificates for certain buildings with a net book value of approximately RMB306,725,000 (2010: RMB41,902,000).

Notes to the financial statements (continued)

Year ended 31 December 2011

16 Property, plant and equipment (continued)

Company

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Computer and electronic equipment RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2011:							
Cost	535,729	3,296,163	20,409	46,111	2,012	9,003	3,909,427
Accumulated depreciation	(223,041)	(805,810)	(16,868)	(21,496)	(1,779)	-	(1,068,994)
Net carrying amount	312,688	2,490,353	3,541	24,615	233	9,003	2,840,433
Cost as at 1 January 2011, net of accumulated depreciation	312,688	2,490,353	3,541	24,615	233	9,003	2,840,433
Additions	153	3,451	378	1,111	178	10,729	16,000
Transfers	440	1,900	-	508		(2,848)	-
Disposals	-	-	(160)	-	-	-	(160)
Depreciation for the year	(30,789)	(223,358)	(563)	(5,261)	(67)	-	(260,038)
Cost as at 31 December 2011, net of accumulated depreciation	282,492	2,272,346	3,196	20,973	344	16,884	2,596,235
As at 31 December 2011:							
Cost	536,322	3,301,515	20,626	47,731	2,190	16,884	3,925,268
Accumulated depreciation	(253,830)	(1,029,169)	(17,430)	(26,758)	(1,846)	-	(1,329,033)
Net carrying amount	282,492	2,272,346	3,196	20,973	344	16,884	2,596,235
As at 1 January 2010:							
Cost	529,423	1,670,868	20,401	29,001	1,793	370,757	2,622,243
Accumulated depreciation	(191,632)	(684,060)	(16,208)	(18,768)	(1,754)	-	(912,422)
Net carrying amount	337,791	986,808	4,193	10,233	39	370,757	1,709,821
Cost as at 1 January 2010, net of accumulated depreciation	337,791	986,808	4,193	10,233	39	370,757	1,709,821
Additions	6,949	1,625,295	8	17,110	219	(361,754)	1,287,827
Disposals	(643)	-	-	-	-	-	(643)
Depreciation for the year	(31,409)	(121,750)	(660)	(2,728)	(25)	-	(156,572)
Cost as at 31 December 2010, net of accumulated depreciation	312,688	2,490,353	3,541	24,615	233	9,003	2,840,433
As at 31 December 2010:							
Cost	535,729	3,296,163	20,409	46,111	2,012	9,003	3,909,427
Accumulated depreciation	(223,041)	(805,810)	(16,868)	(21,496)	(1,779)	-	(1,068,994)
Net carrying amount	312,688	2,490,353	3,541	24,615	233	9,003	2,840,433

Notes to the financial statements (continued)

Year ended 31 December 2011

17 Investment properties

Group

	2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	**2,041**	-
Acquisition of a subsidiary	-	2,086
Transferred to property, plant and equipment	**(2,041)**	-
Depreciation for the year	-	(45)
Carrying amount at 31 December	-	2,041

In the opinion of management, the carrying amounts of the Group's investment properties approximate to their fair values.

18 Mining rights

Group

	Mining rights RMB'000
Cost as at 1 January 2011, net of accumulated amortisation	**484,136**
Additions	**117**
Amortisation for the year	**(1,385)**
Cost as at 31 December 2011, net of accumulated amortisation	**482,868**
As at 31 December 2011:	
Cost	**490,258**
Accumulated amortisation	**(7,390)**
Net carrying amount	**482,868**
Cost as at 1 January 2010, net of accumulated amortisation	431,262
Additions	2,800
Acquisition of a subsidiary	51,500
Amortisation for the year	(1,426)
Cost as at 31 December 2010, net of accumulated amortisation	484,136
As at 31 December 2010:	
Cost	490,141
Accumulated amortisation	(6,005)
Net carrying amount	484,136

Notes to the financial statements (continued)

Year ended 31 December 2011

19 Prepaid land lease payment

Group

	2011 RMB'000	2010 RMB'000
Carrying amount as at 1 January	**487,606**	483,016
Additions	**9,174**	10,000
Acquisition of a subsidiary	**-**	6,282
Amortisation for the year	**(12,176)**	(11,692)
Carrying amount as at 31 December	**484,604**	487,606
Current portion included in prepayments, deposits and other receivables	**(11,909)**	(11,704)
Non-current portion	**472,695**	475,902

The Group's leasehold land is situated in Mainland China and is held under the following lease terms:

	2011 RMB'000	2010 RMB'000
Long-term leases	**34,121**	35,158
Medium-term leases	**450,483**	452,448
	484,604	487,606

Company

	2011 RMB'000	2010 RMB'000
Carrying amount as at 1 January	**43,025**	39,311
Additions	**5,628**	5,000
Amortisation for the year	**(1,557)**	(1,286)
Carrying amount as at 31 December	**47,096**	43,025
Current portion included in prepayments, deposits and other receivables	**(1,415)**	(1,286)
Non-current portion	**45,681**	41,739

The Company's leasehold land is situated in Mainland China and is held under the following lease terms:

	2011 RMB'000	2010 RMB'000
Long-term leases	**6,466**	6,981
Medium-term leases	**40,630**	36,044
	47,096	43,025

Notes to the financial statements (continued)

Year ended 31 December 2011

20 Intangible assets

Group

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2011, net of accumulated amortisation	**10,602**	**254**	**10,856**
Additions	**1,389**	**126,281**	**127,670**
Amortisation for the year	**(5,567)**	**(3,274)**	**(8,841)**
Cost as at 31 December 2011, net of accumulated amortisation	**6,424**	**123,261**	**129,685**
As at 31 December 2011:			
Cost	**32,105**	**127,034**	**159,139**
Accumulated amortisation	**(25,681)**	**(3,773)**	**(29,454)**
Net carrying amount	**6,424**	**123,261**	**129,685**

	Computer software RMB'000	Patents and licences RMB'000	Total RMB'000
Cost as at 1 January 2010, net of accumulated amortisation	15,272	371	15,643
Additions	1,379	-	1,379
Amortisation for the year	(6,049)	(117)	(6,166)
Cost as at 31 December 2010, net of accumulated amortisation	10,602	254	10,856
As at 31 December 2010:			
Cost	30,716	753	31,469
Accumulated amortisation	(20,114)	(499)	(20,613)
Net carrying amount	10,602	254	10,856

Notes to the financial statements (continued)

Year ended 31 December 2011

20 Intangible assets (continued)

Company

	Computer software RMB'000
Cost as at 1 January 2011, net of accumulated amortisation	**3,575**
Additions	**825**
Amortisation for the year	**(3,114)**
Cost as at 31 December 2011, net of accumulated amortisation	**1,286**
As at 31 December 2011:	
Cost	**17,508**
Accumulated amortisation	**(16,222)**
Net carrying amount	**1,286**
Cost as at 1 January 2010, net of accumulated amortisation	5,746
Additions	1,190
Amortisation for the year	(3,361)
Cost as at 31 December 2010, net of accumulated amortisation	3,575
As at 31 December 2010:	
Cost	16,683
Accumulated amortisation	(13,108)
Net carrying amount	3,575

21 Investments in subsidiaries

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	**4,281,001**	4,281,001

The Company's trade receivables, other receivables, loans receivable, trade payables and bills payable and other payable balances with its subsidiaries are disclosed in notes 27, 29, 30, 36 and 37 to the financial statements, respectively.

Notes to the financial statements (continued)

Year ended 31 December 2011

21 Investments in subsidiaries (continued)

Particulars of the principal subsidiaries of the Company are set out as follows:

Company name	Place and date of establishment and operation	Registered capital	Percentage of equity interests attributable to the Company		Principal activities
		RMB'000			
CNOOC Fudao Limited (海洋石油富島有限公司)	PRC 31 December 2001	463,000	Direct Indirect	100.00 -	Manufacture and sale of fertilisers
Hainan CNOOC Plastic Co., Ltd. (海南中海石油塑編有限公司)	PRC 28 April 2002	12,716	Direct Indirect	100.00 -	Manufacture and sale of woven plastic bags
Hainan CNOOC Complex Fertiliser Co., Ltd. (海南富島複合肥有限公司)	PRC 19 May 2000	7,500	Direct Indirect	100.00 -	Manufacture and sale of BB fertilisers
Hainan CNOOC Transportation Co., Ltd. (海南中海石油運輸服務有限公司)	PRC 22 October 2001	6,250	Direct Indirect	- 67.26	Provision of transportation services
CNOOC (Hainan) E&P Gas Limited (中海石油（海南）環保氣體有限公司)	PRC 8 November 2004	6,900	Direct Indirect	100.00 -	Manufacture and sale of liquidised carbon dioxide
CNOOC Jincheng Coal Chemical Industry Co., Ltd. (中海石油晉城煤化工產業有限公司)	PRC 26 November 2007	160,000	Direct Indirect	75.00 -	Manufacture and sale of fertilisers
Hainan Basuo Port Limited (海南八所港務有限責任公司)	PRC 25 April 2005	514,034	Direct Indirect	73.11 -	Port operation
CNOOC Tianye Chemical Limited (中海石油天野化工股份有限公司)	PRC 18 December 2000	1,780,000	Direct Indirect	90.00 -	Manufacture and sale of fertilisers, methanol and polyformaldehyde
Inner Mongolia Hong Feng Packaging Co., Ltd. (內蒙古鴻豐包裝有限責任公司)	PRC 9 December 1999	3,297	Direct Indirect	- 63.54	Manufacture and sale of woven plastic bags
CNOOC Kingboard Chemical Limited (中海石油建滔化工有限公司)	PRC 31 October 2003	500,000	Direct Indirect	60.00 -	Manufacture and sale of methanol
China BlueChemical Yichang Mining Ltd. (中海石油化學宜昌礦業有限公司)	PRC 7 August 2008	50,000	Direct Indirect	51.00 -	Phosphate mining, mineral processing and sale of phosphate ore
Shanghai Qionghua Trading Co., Ltd. (上海瓊化經貿有限公司)	PRC 7 January 2002	27,000	Direct Indirect	- 90.93	Sale of fertilisers
China BlueChemical Baotou Coal Chemical Industry Co., Ltd. (中海油化學包頭煤化工有限公司)	PRC 11 September 2008	100,000	Direct Indirect	100.00 -	Sale of fertilisers and chemical products
China Basuo Ocean Shipping Tally Co., Ltd. (八所中理外輪理貨有限公司)	PRC 9 May 2008	300	Direct Indirect	- 61.41	Provision of overseas shipping services
CNOOC Hualu ShanXi Coal Chemical Co., Ltd. (中海油华鹿山西煤炭化工有限公司)	PRC 29 November 2005	61,224	Direct Indirect	51.00 -	Preparatory work for a methanol and dimethyl ether
Hubei Dayukou Chemical Co., Ltd. (湖北大峪口化工有限责任公司)	PRC 12 August 2005	1,050,624	Direct Indirect	83.97 -	Phosphate mining and processing, sale of MAP and DAP fertilisers

Notes to the financial statements (continued)

Year ended 31 December 2011

21 Interests in subsidiaries (continued)

Company name	Place and date of establishment and operation	Registered capital	Percentage of equity interests attributable to the Company		Principal activities
		RMB'000			
Guangxi Fudao Agricultural Means of Production Limited (廣西富島農業生產資料有限公司)	PRC 11 January 2003	20,000	Direct Indirect	- 51.00	Trading of fertilisers
Guangxi Fudao Chemical Limited (廣西富島化工有限公司)	PRC 8 February 2006	3,000	Direct Indirect	- 45.90	Trading of fertilisers and chemicals
Guilin Fudao Agricultural Means of Production Limited (桂林富島農業生產資料有限公司)	PRC 10 March 2004	1,000	Direct Indirect	- 35.70	Trading of fertilisers
CNOOC Guangxi Fertilizer and Technology Limited (廣西中海肥業科技有限公司)	PRC 25 December 2009	2,000	Direct Indirect	- 51.00	Manufacture and sale of fertilisers
Hegang Huahe Coal Chemical Ltd. (鶴崗市华鹤煤化股份有限公司)	PRC 26 May 2006	100,000	Direct Indirect	80.00 -	Manufacture and sale of fertilisers
Hainan Basuo Port Labor Service Limited (海南八所港務有限責任公司勞動服務公司)	PRC 14 March 2007	600	Direct Indirect	- 100.00	Provision of overseas services

The subsidiaries of the Company listed in the above table are all limited companies which, in the opinion of management, affected the results for the year or formed a substantial portion of the net assets of the Group.

The English names of certain companies above represent the best efforts by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered..

22 Investment in jointly-controlled entities

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	**122,189**	105,882

On 17 March 2009, the Company entered into an acquisition agreement with two other parties to acquire a 45% equity interest in Guizhou Jinlin Chemical Co., Ltd. ("Guizhou Jinlin"). As none of the three parties has unilateral control over Guizhou Jinlin, the investment is treated as an investment in a jointly-controlled entity.

On 20 July 2011, the Company entered into an agreement with four other parties to set up a limited liability company, Yantai Port fertilizer Logistics Co., Ltd. ("Yantai Port"). According to the agreement, there are three majority shareholders, including the Company, each of them holds a 27% equity interest respectively and none of them has unilateral control over Yantai Port. Hence the investment is treated as an investment in a jointly-controlled entity.

Notes to the financial statements (continued)

Year ended 31 December 2011

22 Investment in jointly-controlled entities (continued)

Particulars of the jointly-controlled entities of the Group are set out as follows:

Company name	Place and date of establishment	Registered capital	Percentage of ownership interest attributable to the Group		Principal activities
		RMB'000			
Guizhou Jinlin Chemical Co., Ltd. (贵州锦麟化工有限责任公司)	PRC 12 April 2007	235,294	Direct Indirect	45.00 -	The prospecting, processing, selling of phosphate ore, the sales of chemical products, raw materials, and slag
Yantai Port fertilizer Logistics Co., Ltd. (煙台港化肥物流有限公司)	PRC 20 July 2011	122,500	Direct Indirect	27.00 -	Cargo handling, warehousing, packaging and domestic freight forwarding

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**89,843**	91,173
Non-current assets	**40,018**	18,284
Current liabilities	**(8,775)**	(4,682)
Non-current liabilities	**-**	-
Net assets	**121,086**	104,775
Share of the jointly-controlled entities' results:		
Revenue	**-**	-
Other income	**14**	39
	14	39
Total expenses	**(244)**	(980)
Tax	**-**	-
Net Losses	**(230)**	(941)

Notes to the financial statements (continued)

Year ended 31 December 2011

23 Investments in associates

Group

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**654,347**	654,693

The Group's trade receivable and other receivable with its associates are disclosed in notes 27 and 29 to the financial statements respectively.

Particulars of the associates of the Group are set out as follows:

Company name	Place and date of establishment	Registered capital	Percentage of ownership interest attributable to the Group		Principal activities
		RMB'000			
Shanxi HuaLu Yangpoquan Coal Mining Co., Ltd. (山西華鹿陽坡泉煤礦有限公司)	PRC 3 August 2001	52,000	Direct Indirect	49.00 -	Mining and sale of coal
China Basuo Overseas Shipping Agency Co., Ltd. (中國八所外輪代理有限公司)	PRC 24 May 2000	1,800	Direct Indirect	- 36.56	Provision of overseas shipping services

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

	2011 RMB'000	2010 RMB'000
Assets	**568,946**	656,863
Liabilities	**518,397**	532,672
Revenue	**1,535**	1,609
Profit for the year	**122**	299

Shanxi HuaLu Yangpoquan Coal Mining Co., Ltd. ("Yangpoquan Coal"), an associate of the Company who holds 49% equity interest, was unable to resume production since its suspension of work in March 2010. Pursuant to the requirements of IAS 28 and IAs36, where an indication of impairment exists, the asset's recoverable amount is estimated. Zhonglian Asset Appraisal Group Limited was appointed by the Company to conduct an appraisal of Yangpoquan Coal as at 31 December 2011 and issued an appraisal report which stated that the estimated recoverable amount of Yangpoquan Coal as at 31 December 2011 was RMB1,383.2 million. Accordingly, the recoverable amount of the investment, calculated by the management on a pro rata basis, was higher than its carrying value of RMB653.2 million.

24 Available-for-sale investments

Group

	2011 RMB'000	2010 RMB'000
Non-current		
Unlisted equity investments, at cost	**600**	600

The unlisted equity investments are accounted for at cost less accumulated impairment losses as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

Notes to the financial statements (continued)

Year ended 31 December 2011

25 Deferred taxation

The movements in deferred tax assets and liabilities of the Group and of the Company during the years ended 31 December 2011 and 2010 are as follows:

Group

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Wages and salaries	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011	**15,839**	**18,869**	**15,412**	**28,326**	**78,446**
Credited/(Charged) to the consolidated income statement	**3,034**	**11,188**	**(649)**	**18,179**	**31,752**
As at 31 December 2011	**18,873**	**30,057**	**14,763**	**46,505**	**110,198**
As at 1 January 2010	3,973	20,450	13,871	25,403	63,697
Acquisition of a subsidiary	-	-	-	2,896	2,896
Credited/(Charged) to the consolidated income statement	11,866	(1,581)	1,541	27	11,853
As at 31 December 2010	15,839	18,869	15,412	28,326	78,446

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries	Differences in depreciation and amortisation between tax regulations and accounting policies	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011	**72,762**	**826**	-	**73,588**
(Credited)/Charged to the consolidated income statement	**(2,106)**	**314**	-	**(1,792)**
As at 31 December 2011	**70,656**	**1,140**	-	**71,796**
As at 1 January 2010	73,842	2,010	1,103	76,955
Credited to the consolidated income statement	(1,080)	(1,184)	(1,103)	(3,367)
As at 31 December 2010	72,762	826	-	73,588

Notes to the financial statements (continued)

Year ended 31 December 2011

25 Deferred taxation (continued)

Company

Deferred tax assets

	Differences in depreciation and amortisation between tax regulations and accounting policies	Provision for impairment of assets	Wages and salaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011	**17,482**	**511**	**1,810**	**19,803**
Credited to the consolidated income statement	**1,867**	**223**	**-**	**2,090**
As at 31 December 2011	**19,349**	**734**	**1,810**	**21,893**
As at 1 January 2010	7,005	233	-	7,238
Credited to the consolidated income statement	10,477	278	1,810	12,565
As at 31 December 2010	17,482	511	1,810	19,803

26 Inventories

Group

	2011	2010
	RMB'000	RMB'000
Raw materials and spare parts	**676,328**	513,451
Work in progress	**211,416**	149,116
Finished goods	**585,678**	321,077
	1,473,422	983,644

Company

	2011	2010
	RMB'000	RMB'000
Raw materials and spare parts	**203,411**	188,443
Work in progress	**11,143**	31,257
Finished goods	**95,720**	30
	310,274	219,730

Notes to the financial statements (continued)

Year ended 31 December 2011

27 Trade receivables

Sales of the Group's fertilisers including urea, MAP and DAP are normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. In the case of export sales, the Group may also accept irrevocable letters of credit issued in its favour.

The trading terms of the Group with its methanol and polyformaldehyde customers are mainly on credit. The credit period is generally one month, except for some high-credit customers, where payments may be extended.

Group

	2011 RMB'000	2010 RMB'000
Trade receivables	**147,355**	107,717
Impairment	**(83)**	(2,012)
	147,272	105,705

An ageing analysis of the trade receivables of the Group as at the end of the reporting period, based on invoice dates and net of impairment, is as follows:

	2011 RMB'000	2010 RMB'000
Within six months	**141,316**	103,608
Over six months but within one year	**3,434**	-
Over one year but within two years	**2,498**	1,819
Over two years but within three years	**24**	278
	147,272	105,705

The movements in the provision for impairment of trade receivables are as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	**2,012**	2,017
Impairment losses recognised	**-**	7
Write-off of impairment losses	**(1,929)**	(12)
At 31 December	**83**	2,012

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB83,000 (2010: RMB2,012,000) with a carrying amount before provision of RMB83,000(2010: RMB2,012,000).

The individually impaired trade receivables relate to customers that were in financial difficulties and none of the receivables is expected to be recovered.

Notes to the financial statements (continued)

Year ended 31 December 2011

27 Trade receivables (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**144,750**	103,712
Less than 1 month past due	**2,498**	1,694
1 to 3 months past due	**24**	299
	147,272	105,705

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the management is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2011, the amount due from CNOOC group companies included in the above trade receivable balances was RMB14,183,000 (2010: RMB2,838,000). The amount due is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

Company

	2011 RMB'000	2010 RMB'000
Trade receivables	**32,156**	42,701
Impairment	**(7)**	(7)
	32,149	42,694

Notes to the financial statements (continued)

Year ended 31 December 2011

27 Trade receivables (continued)

An ageing analysis of the trade receivables of the Company as at the end of the reporting period, based on invoice dates and net of impairment, is as follows:

	2011 RMB'000	2010 RMB'000
Within six months	**31,105**	42,694
Over six months but within one year	**1,044**	-
	32,149	42,694

As at 31 December 2011, the amounts due from subsidiaries of the Company and from CNOOC group companies included in the above trade receivable balances were RMB856,000 (2010:RMB7,241,000) and RMB4,195,000 (2010:RMB227,000) respectively. The amounts due are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Company.

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,000 (2010: RMB7,000) with a carrying amount before provision of RMB7,000(2010: RMB7,000).

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Company

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**31,499**	42,664
Less than 1 month past due	**626**	24
1 to 3 months past due	**24**	6
	32,149	42,694

28 Bills receivable

The bills receivable of the Group and the Company as at 31 December 2011 and 2010 all mature within six months.

Notes to the financial statements (continued)

Year ended 31 December 2011

29 Prepayments, deposits and other receivables

Group

	2011 RMB'000	2010 RMB'000
Prepayments	**589,500**	177,212
Prepaid land lease payments	**11,909**	11,704
Deposits and other receivables	**129,580**	107,733
	730,989	296,649

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

The amounts due from the ultimate holding company, CNOOC group companies and an associate included in the above can be analysed as follows:

	2011 RMB'000	2010 RMB'000
Ultimate holding company	-	2,250
CNOOC group companies	**60,511**	58,692
An associate	**7,677**	-
	68,188	60,942

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

Company

	2011 RMB'000	2010 RMB'000
Prepayments	**26,349**	5,107
Prepaid land lease payments	**1,415**	1,286
Deposits and other receivables	**89,862**	85,077
	117,626	91,470

The amounts due from the ultimate holding company, CNOOC group companies and subsidiaries of the Company included in the above can be analysed as follows:

	2011 RMB'000	2010 RMB'000
Ultimate holding company	-	2,250
CNOOC group companies	**18,298**	15,562
Subsidiaries	**41,833**	26,408
	60,131	44,220

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

Notes to the financial statements (continued)

Year ended 31 December 2011

30 Loans receivable

Company

As at 31 December 2011, loans receivable of the Company represented the following:

- Entrusted loan with an amount of RMB100,000,000 which was provided to CNOOC Tianye during the year and is unsecured, bears interest at a rate of 6.100% per annum and is repayable on 8 May 2012;

- Entrusted loan with an amount of RMB8,000,000 which was provided to CNOOC E&P during the year and is unsecured, bears interest at a rate of 2.700% per annum and is repayable on 28 April 2012;

- Entrusted loan with an amount of RMB200,000,000 which was provided to DYK Chemical during the year and is unsecured, bears interest at a rate of 5.490% per annum and is repayable on 25 March 2012;

- Entrusted loan with an amount of RMB95,000,000 which was provided to DYK Chemical during the year and is unsecured, bears interest at a rate of 6.100% per annum and is repayable on 9 June 2012;

- Entrusted loan with an amount of RMB200,000,000 which was provided to Hegang Huahe coal chemical Ltd. ("Hegang Chemical") during the year and is unsecured, bears interest at a rate of 5.490% per annum and is repayable on 30 April 2012;

- Entrusted loan with an amount of RMB134,500,000 which was provided to Hegang Chemical during the year and is unsecured, bears interest at a rate of 6.100% per annum and is repayable on 18 June 2012;

- Entrusted loan with an amount of RMB60,000,000 which was provided to Guangxi Fudao Agricultural Means of Production Limited ("Gugangxi Fudao") during the year and is unsecured, bears interest at a rate of 6.100% per annum and is repayable on 19 June 2012.

31 Cash and cash equivalents and pledged bank deposits

Group

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**2,837,827**	2,454,148
Less: Pledged bank deposits	**(1,711)**	(8,556)
Time deposits	**(32,850)**	(58,500)
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**2,803,266**	2,387,092

As at 31 December 2011, the Group's pledged bank deposits of RMB1,711,000 (2010: RMB8,556,000) were deposited with banks mainly for issuing letters of credit and guarantees in relation to the purchase of machinery and equipment.

The Group's cash and bank balances where denominated in RMB as at 31 December 2011 and 2010, except for amounts of RMB57,021,000 (2010: RMB2,529,000) which was translated from USD9,051,000 (2010: USD382,000); and RMB12,000 (2010: RMB1,610,000) which was translated from HKD15,000 (2010: HKD1,892,000).

Notes to the financial statements (continued)

Year ended 31 December 2011

31 Cash and cash equivalents and pledged bank deposits (continued)

The RMB is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2011, included in the Group's cash and cash equivalents were RMB322,373,000 (2010: RMB206,196,000) deposited in CNOOC Finance Corporation Limited ("CNOOC Finance"). The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months..

Company

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**1,653,204**	1,331,624

The Company's cash and bank balances were denominated in RMB as at 31 December 2011 and 2010, except for amounts of RMB53,538,000 (2010: RMB2,529,000) which was translated from USD8,498,000 (2010: USD382,000); and RMB12,000 (2010: RMB1,610,000) which was translated from HKD15,000 (2010: HKD1,892,000). The Company is subject to the same exchange control requirements as the Group as detailed above.

As at 31 December 2011, included in the Company's cash and cash equivalents were RMB33,073,000 (2010: RMB78,531,000) deposited in CNOOC Finance. The deposits with CNOOC Finance are entitled to interest at rates similar to the prevailing bank deposit rates and are held for terms ranging from one day to six months.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term time deposit rates.

32 Issued capital

	Number of shares '000	Nominal value RMB'000
Registered capital	4,610,000	4,610,000
Issued and fully paid:		
Domestic shares of RMB1 each, currently not listed:		
- State-owned shares	2,739,000	2,739,000
- Other legal person shares	75,000	75,000
Unlisted foreign shares of RMB1 each	25,000	25,000
H shares of RMB1 each	1,771,000	1,771,000
As at 31 December 2011 and 2010	4,610,000	4,610,000

Notes to the financial statements (continued)

Year ended 31 December 2011

33 Reserves and Proposed dividends

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 54 to 55 of the financial statements.

The Company's movement in reserves and proposed dividends for the years ended 31 December 2011 and 2010 are as follows:

Company

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2011		**1,366,392**	**471,031**
Profit for the year		-	-
Total comprehensive income for the year		-	-
Grant from the ultimate holding company		-	-
Appropriation and utilisation of safety fund, net		-	-
Transfer from retained profits		-	**140,346**
Proposed 2011 final dividend	13	-	-
Dividend paid to non-controlling shareholders		-	-
Final 2010 dividend declared		-	-
As at 31 December 2011		**1,366,392***	**611,377***

*These reserve accounts comprise the company's reserves of RMB4,667,598,000 (2010: RMB3,971,161,000) in the company's statement of financial position.

	Note	Capital reserve RMB'000	Statutory surplus reserve RMB'000
As at 1 January 2010		1,334,512	401,519
Profit for the year		-	-
Total comprehensive income for the year		-	-
Grant from the ultimate holding company		31,880	-
Appropriation and utilisation of safety fund, net		-	-
Transfer from retained profits		-	69,512
Proposed 2010 final dividend	13	-	-
Final 2009 dividend declared		-	-
As at 31 December 2010		1,366,392*	471,031*

* These reserve accounts comprise the company's reserves of RMB3,971,161,000 in the company's statement of financial position.

Notes to the financial statements (continued)

Year ended 31 December 2011

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
672	**2,133,066**	**414,900**	**4,386,061**
-	**1,434,037**	**-**	**1,434,037**
-	**1,434,037**	**-**	**1,434,037**
-	**-**	**-**	**-**
10,267	**(10,267)**	**-**	**-**
-	**(140,346)**	**-**	**-**
-	**(737,600)**	**737,600**	**-**
-	**-**	**-**	**-**
-	**-**	**(414,900)**	**(414,900)**
10,939*	**2,678,890***	**737,600**	**5,405,198**

Special reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
-	1,899,410	322,700	3,958,141
-	718,068	-	718,068
-	718,068	-	718,068
-	-	-	31,880
672	-	-	672
-	(69,512)	-	-
-	(414,900)	414,900	-
-	-	(322,700)	(322,700)
672*	2,133,066*	414,900	4,386,061

Notes to the financial statements (continued)

Year ended 31 December 2011

34 Benefit liability

CNOOC Tianye, the Company's 90%-owned subsidiary, provides post-employment allowances covering substantially all of its employees, and also early retirement benefits to qualifying retirees.

The following tables summarise the components of expenses recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position.

The details of expenses by each type of benefits for the years ended 31 December 2011 and 2010 are as follows:

Group

	2011		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	**-**	**214**	**214**
Interest cost on benefit obligation	**509**	**572**	**1,081**
Net actuarial gain recognised for the year	**(848)**	**(875)**	**(1,723)**
Net benefit expense	**(339)**	**(89)**	**(428)**

	2010		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Current service cost	-	232	232
Interest cost on benefit obligation	543	586	1,129
Net actuarial gain recognised for the year	(835)	(832)	(1,667)
Net benefit expense	(292)	(14)	(306)

The details of the benefit liability by each type of benefits as at 31 December 2011 and 2010 are as follows:

	2011		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	**14,424**	**15,392**	**29,816**
Unrecognised net actuarial gain	**22,843**	**752**	**23,595**
Benefit liability	**37,267**	**16,144**	**53,411**

Notes to the financial statements (continued)

Year ended 31 December 2011

34 Benefit liability (continued)

	2010		
	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
Defined benefit obligation	14,157	14,614	28,771
Unrecognised net actuarial gain	26,545	2,291	28,836
Benefit liability	40,702	16,905	57,607

The details of changes in the present values of the defined benefit obligations by each type of benefits during the year are as follows:

	Early retirement benefits	Post-employment allowances	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2010	43,976	17,508	61,484
Current service cost	-	232	232
Interest cost on benefit obligation	543	586	1,129
Net actuarial gain recognised for the year	(835)	(832)	(1,667)
Benefits paid	(2,982)	(589)	(3,571)
As at 31 December 2010 and	40,702	16,905	57,607
1 January 2011	-	**214**	**214**
Current service cost	**509**	**572**	**1,081**
Interest cost on benefit obligation			
Net actuarial gain recognised forthe year	**(848)**	**(875)**	**(1,723)**
Benefits paid	**(3,096)**	**(672)**	**(3,768)**
As at 31 December 2011	**37,267**	**16,144**	**53,411**

The Group expects to contribute RMB295,000 to its defined benefit pension plans in 2012.

The principal assumptions used in determining the early retirement benefit obligations and post-employment allowances of the Group as at 31 December 2011 are shown below:

	2011
Discount rate	**3.50%**
Early retirement rate	**0.00%**
Inflation rate	**2.00%**

Management has reviewed the actuarial valuation as at 31 December 2011 which was performed by Watson Wyatt Consultant (Shanghai) Ltd., an independent actuary service provider, using the valuation method detailed under the heading "Employee benefits" in note 2.4 to the financial statements, and considered that the Group's current provision for the net benefit expenses was adequate for the year ended 31 December 2011.

Notes to the financial statements (continued)

Year ended 31 December 2011

35 Interest-bearing bank borrowings

Group

	Effective interest rate(%)	Maturity	2011 RMB'000	2010 RMB'000
Non-current				
Unsecured bank loans	5.53-6.35	2020-2021	**425,000**	335,700

	2011 RMB'000	2010 RMB'000
Analysed into:		
Bank loans repayable:Beyond five years	**425,000**	335,000

Company

	Effective interest rate(%)	Maturity	2011 RMB'000	2010 RMB'000
Non-current				
Unsecured bank loans	-	-	-	235,700

As at 31 December 2011, the Group's bank loans repayable of RMB200,000,000 (2010:RMB80,000,000) was borrowed from CNOOC Finance.

36 Trade payables and bills payable

The trade payables and bills payable are unsecured, non-interest-bearing and are normally settled in thirty to sixty days. An ageing analysis of trade payables and bills payable of the Group and of the Company, based on invoice date, is as follows:

Group

	2011 RMB'000	2010 RMB'000
Within six months	**313,276**	207,430
Over six months but within one year	**4,861**	1,235
Over one year but within two years	**3,577**	7,255
Over two years but within three years	**90**	1,511
Over three years	**5,435**	5,253
	327,239	222,684

As at 31 December 2011, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances totalled RMB174,884,000 (2010: RMB145,408,000).

Notes to the financial statements (continued)

Year ended 31 December 2011

36 Trade payables and bills payable (continued)

Company

	2011 RMB'000	2010 RMB'000
Within six months	**52,957**	90,263
Over six months but within one year	**133**	-
	53,090	90,263

As at 31 December 2011, the amounts due to CNOOC group companies included in the above trade payable and bills payable balances totalled RMB50,517,000 (2010: RMB89,838,000). The amounts due to subsidiaries of the company included in the above trade payable and bills payable balances totalled RMB1,832,000 (2010: Nil).

37 Other payables and accruals

Group

	2011 RMB'000	**2010 RMB'000**
Advances from customers	**611,287**	489,308
Accruals	**9,258**	2,954
Accrued payroll	**229,999**	214,062
Other payables	**113,075**	149,163
Long-term liabilities due within one year	**1,798**	21,798
Payable to government	**84,883**	68,661
Tax payables	**(87,966)**	(218,838)
Port construction fee payable	**164,659**	166,982
Payables in relation to the construction and purchase of property, plant and equipment	**638,431**	789,011
	1,765,424	1,683,101

The amounts due to the ultimate holding company and CNOOC group companies included in the above can be analyzed as follows:

	2011 RMB'000	**2010 RMB'000**
Due to the ultimate holding company	-	10,418
Due to CNOOC group companies	**43,734**	28,037
	43,734	38,455

Notes to the financial statements (continued)

Year ended 31 December 2011

37 Other payables and accruals (continued)

Company

	2011 RMB'000	2010 RMB'000
Advances from customers	**199,848**	71,499
Accrued payroll	**52,162**	42,188
Tax payables	**(15,764)**	(119,661)
Other payables	**152,047**	135,499
Payables in relation to the construction and purchase of property, plant and equipment	**84,869**	421,276
	473,162	550,801

The amounts due to the ultimate holding company and CNOOC group companies and subsidiaries of the Company included in the above can be analyzed as follows:

	2011 RMB'000	2010 RMB'000
Due to the ultimate holding company	-	6,418
Due to CNOOC group companies	**12,633**	13,765
Due to subsidiaries	**82,856**	88,513
	95,489	108,696

The amounts due are unsecured, non-interest-bearing and have no fixed terms of repayment.

Notes to the financial statements (continued)

Year ended 31 December 2011

38 Share option scheme

On 25 February 2008, 6,224,000 share appreciation rights (the "SARs") were granted to senior executives, which can only be settled in cash. The exercise price of the SARs of HKD5.10 per share was equal to the market price of the shares on the date of grant. The SARs would vest if and when (i) the average return on equity for the financial years 2007 and 2008 was not lower than 14%; and (ii) the average year-on-year increase in net profit of the Company was not lower than 10% for the financial years 2007 and 2008.The share appreciation rights become vested upon that these conditions are met, and the senior executives can exercise their rights in four equal batches, beginning year 3 (first exercisable date: the first trading day after 31 December 2010), 4, 5 and 6 from the approval date of the SAR Plan.

The SAR's plan provides that if the gain from excising the share appreciation exceeds HKD1.115 per share in any one year, the excess gain should be calculated using the following percentage:

(1) Between HKD1.115 and HKD1.50, at 50%

(2) Between HKD1.50 and HKD2.00, at 30%

(3) Between HKD2.00 and HKD2.50, at 20%

(4) HKD2.50 or above, at 15%

The annual payment upon the exercise shall not be more than 50% of the total annual remuneration of the recipients of the SARs as at the time of the grant. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognised in profit or loss.

The fair value change is charged to the income statement over the period until the finalization of the exercise plan. The liability is measured at fair value at the end of the reporting period with changes in fair value recognized in profit or loss. The increase of the share appreciation rights liability amounted to approximately RMB1,003,000 for the year ended 31 December 2011 (2010: RMB1,064,000) and was recorded in salary and bonus payables under general and administrative expenses:

Name	Title	Total shares at end of the year 2011 and 2010 '000	At 1- January 2011 RMB'000	Changes during the year RMB'000	At 31- December 2011 RMB'000
Wu Mengfei	Non-executive director	1,053	405	170	575
Yang Yexin	Executive director	891	342	144	486
Fang Yong	Executive director	681	262	110	372
Chen Kai	Executive director	681	262	110	372
Zhou Fan	Executive	454	175	73	248
Quan Changsheng	Vice president	616	237	99	336
Hong Junlian	Vice president	616	237	99	336
Liang Mingchu	Vice president	616	237	99	336
Miao Qian	Vice president	616	237	99	336
Total		6,224	2,394	1,003	3,397

Notes to the financial statements (continued)

Year ended 31 December 2011

39 Operating lease arrangements

(i) As lessor

Group

The Group leases certain of its buildings under operating lease arrangements with leases negotiated for terms from one year to twenty years to CNOOC group companies.

As at 31 December 2011 and 2010, the Group had total future minimum lease receivables from CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**1,425**	1,123
In the second to fifth years, inclusive	**1,348**	4,491
After five years	**4,072**	7,511
	6,845	13,125

Company

The Company leases certain of its buildings under operating lease arrangements to its subsidiaries and CNOOC group companies with leases negotiated for terms from one year to twenty years.

As at 31 December 2011 and 2010, the Company had total future minimum lease receivables from its subsidiaries, CNOOC New Energy (Hainan) Bio-energy & Chemical Co., Ltd. and CNOOC Green Materials Ltd. under non-cancellable operating leases falling due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**1,123**	1,123
In the second to fifth years, inclusive	**4,257**	4,491
After five years	**6,623**	7,511
	12,003	13,125

(ii) As lessee

Group

The Group leases certain of its properties and vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one month to six years, and those for vehicles are for terms ranging between three months and four years.

Notes to the financial statements (continued)

Year ended 31 December 2011

39 Operating lease arrangements (continued)

At 31 December 2011 and 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**5,681**	9,979
In the second to fifth years, inclusive	**6,148**	8,290
After five years	**3,065**	3,010
	14,894	21,279

As at 31 December 2011 and 2010, the Company had no significant future minimum lease payments under non-cancellable operating leases.

40 Commitments and contingent liabilities

Capital commitments

In addition to the operating lease commitments detailed in note 39(ii) above, the Group and the Company had the following capital commitments at the end of the reporting period:

Group

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	**1,201,649**	1,226,697
Authorised, but not contracted for:		
- Acquisition of plant and machinery	**3,488,718**	1,558,414
	4,690,367	2,785,111

Company

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:		
- Acquisition of plant and machinery	**109,741**	238,682
Authorised, but not contracted for:		
- Acquisition of plant and machinery	**16,538**	18,965
	126,279	257,647

Notes to the financial statements (continued)

Year ended 31 December 2011

41 Related party transactions

During the year, the Group had the following material transactions with related parties:

(1) Recurring

	Notes	2011 RMB'000	2010 RMB'000
(A) Included in revenue, other income and gains			
(a) CNOOC group companies			
Sale of goods	(i)	**32,118**	37,342
Provision of transportation services	(ii)	**7,576**	3,651
Provision of packaging and assembling services	(iii)	**20,333**	20,670
Provision of logistics services	(iii)	**5,261**	5,763
Rental income	(iv)	**253**	269
(b) Associates			
Sale of goods	(i)	**-**	207,549
Provision of transportation services	(ii)	**-**	8,300
(B) Included in cost of sales and other expenses			
(a) CNOOC group companies			
Purchase of raw materials	(i)	**2,245,509**	1,325,056
Transportation services	(ii)	**117,184**	14,697
Lease of offices	(iv)	**22,884**	30,613
Construction and installation services	(v)	**53,280**	54,953
Labor services	(vi)	**30,265**	90,641
Network services	(vi)	**9,350**	11,960
Logistics services	(vi)	**7,400**	7,739
(b) Included in finance income/costs			
CNOOC Finance			
Finance income	(vii)	**2,182**	1,333
Finance costs	(vii)	**1,110**	2,621

Notes to the financial statements (continued)

Year ended 31 December 2011

41 Related party transactions (continued)

(1) Recurring (continued)

Notes:

(i) These transactions were conducted in accordance with terms agreed among the Group, its associates and CNOOC group companies.

(ii) The transportation services provided were based on mutually agreed terms with reference to the market rates.

(iii) The income from these services was determined by mutually agreed terms.

(iv) The rentals were based on mutually agreed terms with reference to the market rates.

(v) The construction and installation fees were determined by market prices.

(vi) These services were charged based on mutually agreed terms.

(vii) Finance income/costs were based on mutually agreed terms with reference to the market rates for corresponding items and periods.

(2) Non-recurring

	Notes	2011 RMB'000	2010 RMB'000
Provision of utilities to CNOOC group companies	(i)	**12,475**	9,232
Fees and charges paid to CNOOC Finance	(ii)	**3,355**	2,523
Loans from CNOOC Finance (note 35)	(iii)	**200,000**	80,000

Notes:

(i) The transactions were conducted in accordance with terms agreed between the Group and CNOOC group companies.

(ii) Fees and charges were based on mutually agreed terms.

(iii) Interest on the loans was based on market interest rates.

Except for items in note 41(1)A(b)(i), 41(1)A(b)(ii) and 41(1)B(b)(vii), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(3) Balances with related parties

Details for following balances are set out in notes 27, 29, 31, 35, 36 and 37 to the financial statements. The balance with CNOOC Finance resulted from interests and loans. Others were mainly formed through routine trading transactions, reception of construction services, and other miscellaneous transactions with related parties.

Notes to the financial statements (continued)

Year ended 31 December 2011

41 Related party transactions (continued)

Group

	Due from related parties		Due to related parties	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	-	2,250	-	10,418
CNOOC group companies (excluding CNOOC Finance)	**74,694**	61,468	**222,511**	177,554
Associates	**7,677**	-	-	-
CNOOC Finance	-	62	**200,115**	80,236

Company

	Due from related parties		Due to related parties	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	-	2,250	-	6,418
CNOOC group companies (excluding CNOOC Finance)	**22,493**	15,727	**63,150**	103,603
CNOOC Finance	-	62	-	-
Subsidiaries	**840,189**	368,253	**98,457**	103,274

As at 31 December 2011 and 2010, the deposits placed by the Group and the Company with CNOOC Finance are summarised below:

Group

	31 December 2011	31 December 2010
	RMB'000	RMB'000
Deposits placed by the Group with CNOOC Finance	**322,373**	206,196

Company

	31 December 2011	31 December 2010
	RMB'000	RMB'000
Deposits placed by the Company with CNOOC Finance	**33,073**	78,531

Further details of the deposits placed with CNOOC Finance are set out in note 31 to the financial statements..

Notes to the financial statements (continued)

Year ended 31 December 2011

41 Related party transactions (continued)

(4) Compensation of key management personnel of the Group

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**4,620**	5,473
Post-employment benefits	**250**	335
Total compensation paid to key management personnel	**4,870**	5,808

Further details of directors' and supervisors' emoluments are set out in note 9 to the financial statements.

(5) Transactions with other state-owned enterprises ("SOE") in the PRC

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, other than CNOOC group companies, in the normal course of business at terms comparable to those with other non-SOEs. The sales of goods and rendering of services to these SOEs are individually not significant. The individually significant construction services provided by the SOE vendor is from an SOE, namely China National Chemical Engineering Group Corporation and its subsidiaries, in relation to the construction of DYK Chemical's Phase II Expansion Project. For the year ended 31 December 2011, the Group has recorded in the additions to its property, plant and equipment for the purchases of construction services, with an aggregate amount of RM245 million (2010: RMB25 million). The related commitment as of 31 December 2011 was amount to RMB76 million (2010: RMB322 million), which was included in the commitments in note 40 above.

In addition, the Group has certain of its cash, pledged bank deposits and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2011, as summarised below:

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Cash and cash equivalents (note 31)	2,480,893	2,180,896
Pledged bank deposits (note 31)	1,711	8,556
Time deposits (note 31)	**32,850**	58,500
	2,515,454	2,247,952
Long-term bank loans (note 35)	**225,000**	255,700

Deposit interest rates and loan interest rates are at the market rates.

Notes to the financial statements (continued)

Year ended 31 December 2011

42 Financial Instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011	Group		
Financial assets	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	-	**600**	**600**
Trade receivables	**147,272**	-	**147,272**
Bills receivable	**81,196**	-	**81,196**
Financial assets included in prepayments, deposits and other receivables	**129,580**	-	**129,580**
Pledged bank deposits	**1,711**	-	**1,711**
Timing deposits	**32,850**	-	**32,850**
Cash and cash equivalents	**2,803,266**	-	**2,803,266**
	3,195,875	**600**	**3,196,475**

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank borrowings	-	**425,000**	**425,000**
Trade payables	-	**318,689**	**318,689**
Bills payable	-	**8,550**	**8,550**
Financial liabilities included in other payables and accruals	**3,397**	**913,082**	**916,479**
	3,397	**1,665,321**	**1,668,718**

Notes to the financial statements (continued)

Year ended 31 December 2011

42 Financial Instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2010

Financial assets	Group		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	-	600	600
Trade receivables	105,705	-	105,705
Bills receivable	35,700	-	35,700
Financial assets included in prepayments, deposits and other receivables	107,733	-	107,733
Pledged bank deposits	8,556	-	8,556
Timing deposits	58,500	-	58,500
Cash and cash equivalents	2,387,092	-	2,387,092
	2,703,286	600	2,703,886

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank borrowings	-	335,700	335,700
Trade payables	-	222,684	222,684
Financial liabilities included in other payables and accruals	2,394	966,359	968,753
Due to the ultimate holding company (Note 37)	-	10,418	10,418
	2,394	1,535,161	1,537,555

As at 31 December 2011 and 2010, the Company had no significant financial assets and liabilities.

Notes to the financial statements (continued)

Year ended 31 December 2011

43 Fair value and Fair Value hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Available-for-sale investments	**600**	600	**600**	600
Trade receivables	**147,272**	105,705	**147,272**	105,705
Bills receivable	**81,196**	35,700	**81,196**	35,700
Financial assets included in prepayments, deposits and other receivables	**129,580**	107,733	**129,580**	107,733
Pledged bank deposits	**1,711**	8,556	**1,711**	8,556
Timing deposits	**32,850**	58,500	**32,850**	58,500
Cash and cash equivalents	**2,803,266**	2,387,092	**2,803,266**	2,387,092
	3,196,475	2,703,886	**3,196,475**	2,703,886

Financial liabilities				
Interest-bearing bank borrowings	**425,000**	335,700	**425,000**	335,700
Trade payables	**318,689**	222,684	**318,689**	222,684
Bills payable	**8,550**	-	**8,550**	-
Financial liabilities included in other payables and accruals	**916,479**	968,753	**916,479**	968,753
Due to the ultimate holding company (Note 37)	-	10,418	-	10,418
	1,668,718	1,537,555	**1,668,718**	1,537,555

Notes to the financial statements (continued)

Year ended 31 December 2011

43 Fair value and Fair Value hierarchy(continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of trade receivables, bills receivable, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, time deposits, cash and cash equivalents, trade payables, bills payable, financial liabilities included in other payables and accruals, and an amount due to the ultimate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The unlisted equity investments are accounted for at cost less accumulated impairment losses as such investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: The fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: The fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: The fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The liability measured at fair value:

Group

	Level 1 RMB'000	Level 2 RMB '000	Level 3 RMB '000	Total RMB '000
As at 31 December 2011				
Liability in relation to cash-settled share-based payment		**3,397**	-	**3,397**

	Level 1 RMB'000	Level 2 RMB '000	Level 3 RMB '000	Total RMB '000
As at 31 December 2010				
Liability in relation to cash-settled share-based payment	-	**2,394**	-	**2,394**

Notes to the financial statements (continued)

Year ended 31 December 2011

44 Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

As at 31 December 2011, The Group's all interest-bearing bank borrowings amounted to RMB425,000,000 (2010: RMB335,700,000) are bearing variable interest rates.

The interest rates and the terms of repayment of the Group's bank borrowings are disclosed in note 35 to the financial statements.

(ii) Foreign currency risk

The Group has transactional currency exposures, which arise from sales or purchases in currencies other than Group's functional currency. Approximately 7% (2010: 17%) of the Group's sales were denominated in currencies other than functional currency of the Group.

The Group's monetary assets, loans and transactions are principally denominated in RMB, USD and HKD. The Group was exposed to foreign currency risk arising from the changes in the exchange rates of HKD and USD against RMB.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

(iii) Credit risk

The carrying amounts of the Group's cash and cash equivalents, available-for-sale investments, trade receivables, other receivables and other current assets except for prepayments and tax recoverables, represent the Group's maximum exposure to credit risk in relation to its financial assets.

The majority of the Group's trade receivables are related to the sale of fertilisers and methanol. The sale of fertilisers is normally settled on an advance receipt basis whereby the customers are required to pay in advance either by cash or by bank acceptance drafts. The trading terms of the Group with its methanol customers are mainly on credit. The credit period is generally one month.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long-standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. As at 31 December 2011 and 2010, there were no trade receivables due from the Group's largest customer and the five largest customers.

No other financial assets carry a significant exposure to credit risk.

Notes to the financial statements (continued)

Year ended 31 December 2011

44 Financial risk management objectives and policies (continued)

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2011, none of the Group's interest-bearing debts would mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	**-**	**-**	**25,866**	**129,330**	**498,148**	**653,344**
Trade payables	**174,741**	**101,717**	**27,250**	**14,981**	**-**	**318,689**
Bills payable		**8,550**	**-**	**-**	**-**	**8,550**
Financial liabilities included in other payables and accruals	**677,625**	**5,985**	**226,936**	**4,704**	**1,229**	**916,479**
	852,366	**116,252**	**280,052**	**149,015**	**499,377**	**1,897,062**

	2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	-	-	18,233	91,165	391,918	501,316
Trade payables	165,758	37,718	3,324	15,884	-	222,684
Financial liabilities included in other payables and accruals	595,778	155,405	209,367	6,932	1,271	968,753
Due to the ultimate holding company	10,418	-	-	-	-	10,418
	771,954	193,123	230,924	113,981	393,189	1,703,171

Notes to the financial statements (continued)

Year ended 31 December 2011

44 Financial risk management objectives and policies (continued)

(v) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2011 and 2010.

The Group monitors capital using a gearing ratio, which is calculated as interest-bearing loans divided by total capital plus interest-bearing loans. The gearing ratios as at the end of the reporting periods were as follows:

	2011 **RMB'000**	2010 RMB'000
Interest-bearing loans	**425,000**	335,700
Total capital	**13,567,668**	11,922,004
Capital and net debt	**13,992,668**	12,257,704
Gearing ratio	**3.04%**	2.74%

45 Events after the reporting period

There is no material event after the reporting period.

46 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2012.

Glossary

Ammonia	NH_3, a colorless, combustible alkaline gas. Ammonia is a compound of nitrogen and hydrogen, it is used extensively for the manufacture of fertilisers and a wide variety of nitrogen-containing organic and inorganic chemicals;
BB fertilisers	Bulk blended fertilisers, according to the PRC national standard being a chemical compound containing at least two primary plant nutrients among N, P and K;
Compound fertilisers	Chemically obtained fertiliser, composed of at least two primary plant nutrients, also contained secondary nutrients.
DAP	di-ammonium phosphate, $(NH_4)_2HPO_4$, a type of phosphate fertiliser;
Formaldehyde	CH_2O, a colorless, poisonous gas, made by the oxidation of methanol;
MAP	mono-ammonium phosphate, $NH_4H_2PO_4$, a type of phosphate fertiliser;
Methanol	CH_3OH, or methyl alcohol, or wood alcohol, a colorless, flammable liquid, produced synthetically by the direct combination of hydrogen and carbon monoxide gases, heated under pressure in the presence of a catalyst;
Natural gas	Colorless, highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and it also can be present as a gas cap above the oil;
P fertiliser or phosphate fertiliser	a fertiliser containing phosphorus (P) as the main nutrient, common examples include MAP and DAP;
Polyoxymethylene (POM)	$-(-O-CH_2-)n-$, also known as acetal resin, an engineering plastic used to make gears, bushings and other mechanical parts. It is a thermoplastic with good physical and processing properties;
Urea	$H_2N-CO-NH_2$, nitrogen fertiliser formed by reacting ammonia with carbon dioxide at high pressure (containing 46% nitrogen);
Utilisation rate	A percentage calculated by dividing the actual annual production volume by the designed annual production volume.

Company Information

Registered Office	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC
Address of headquarter	Kaikang CNOOC Mansion, No.15, Sanqu, Anzhenxili, Chaoyang District, Beijing, The PRC
Principal place of business in the PRC	No.1 Zhu Jiang South Street, Dongfang City, Hainan Province, The PRC
Representative Office in Hong Kong	65/F., Bank of China Tower, No.1 Garden Road, Central, Hong Kong
Company Secretary	QUAN Changsheng
Authorized representatives	YANG Yexin No. 301, Building 5,12 Yongan Road, Basuo Town, Dongfang City Hainan Province, the PRC QUAN Changsheng Flat 1803,Builiding No.18 Zone 2, Yuhuili, Chaoyang District, Beijing
Alternate to authorized representatives	ZHANG Xuewen Flat D,16/F,On Wing Building 51-59 Bonham Strand East Sheung Wan, Hong Kong
Principal banker	Bank of China, Hainan Branch
Auditor	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Hong Kong & US law legal adviser	Baker & McKenzie 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong
The PRC law legal adviser	Jun He Law Offices China Resources Building, 20th Floor, 8 Jianguomenbei Avenue
H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
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